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The Politics of Finance:
A Comparative Analysis of Public
Finance in the Provinces of Quebec and Ontario
From 1867 to 1896

Jack Jedwab

A Thesis
in
The Department
of
History

Presented in Partial Fulfilment of the Requirements
for the Degree of Doctor of Philosophy at
Concordia University
Montreal, Quebec, Canada

January 1992

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ABSTRACT

The Politics of Finance:
A Comparative Analysis of Public
Finance in the Provinces of Quebec and Ontario
From 1867 to 1896

Jack Jedwab, Ph.D.
Concordia University, 1992

This dissertation contrasts the financial evolution of the provinces of Quebec and Ontario from Confederation to the year 1896. Traditionally, studies which have examined the role of government in the two provinces have confined their attention to expenditure patterns in order to arrive at conclusions about relative levels of state activity. The dissertation employs budget speeches and assorted fiscal records in order to examine the short and long term fiscal strategies adopted by the provincial administrations as a consequence of the changing circumstances in which the governments found themselves. The thesis also assesses the way in which priorities were identified by the governments as their respective financial situations evolved.

The financial evolution of the provinces, it is contended, had an important impact on the manner in which the Confederation arrangements came to be understood. The forecasts originally presented by the architects of Confederation regarding the future favourable condition of provincial finances proved erroneous particularly in the case of Quebec. This resulted

in heightening the degree of federal-provincial conflict specifically with regard to the jurisdiction over certain revenues that were sources of dispute between the two levels of government. In the case of Quebec's growing financial difficulties, from 1875 to 1895, the federal government offered no permanent fiscal remedies. This was a major factor in federal-provincial tension during the period.

Within the first decade following Confederation, Ontario attained a relatively comfortable fiscal standing and proved able to develop a significant financial advantage over its eastern neighbour. This was in part the result of the assets carried forward by the province of Ontario under the Confederation arrangements. There were, however, other important factors which contributed to the fiscal gap between Quebec and Ontario notably the far greater revenues collected by the latter province prior to the recession which emerged in the mid-1870's. When the economic downturn occurred, Ontario found itself significantly better prepared to maintain its financial security whereas Quebec's already fragile financial situation continued to deteriorate in the remaining years of the century. Quebec was obliged to resort to direct taxation over a decade prior to Ontario. Despite this, Ontario was able to spend considerably greater sums than Quebec on its social mission while the latter province focused to a greater extent on railway expenditures and the cost of basic

government services.

The Ontario administrators of the post-Confederation period had little sympathy for the fiscal dilemma of Quebec. Moreover, under Liberal Premier Oliver Mowat, the government was concerned that Quebec would propose adjustments to the Federation that would occur at the expense of the Ontario population. Nonetheless, the two provinces found common ground on the need for some form of autonomy insofar as federal encroachments on their authority were concerned.

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CHAPTER 1

REVIEW OF THE LITERATURE

ON THE ROLE OF THE STATE AND

PUBLIC FINANCE IN QUEBEC AND ONTARIO

Since the dramatic expansion of government activity in Quebec during the early 1960's - generally referred to as the Quiet Revolution - few subjects have attracted more attention in Quebec historiography than the inquiry into the role of the state. Over the years there have been several approaches to the topic ranging on the one hand from an emphasis on psycho-cultural factors in influencing government intervention to stressing economic conditions on the other. Until the 1960's, for the most part, the prevailing school of thought in this field maintained that cultural and/or psychological considerations played an inestimable role in affecting the behaviour of state administrators. Often linked to the latter approach is the identification of a certain philosophy of state associated with either a broader ideological or political framework. Liberalism or conservatism are amongst the main categories of political thought most often cited by those who have pursued this form of inquiry. While the former has generally been associated with a progressive approach to state activity, conservative behaviour was equated with slow evolution. While the political, economic and cultural explanations have often been marked off from one another, the obvious link between them merits proper assessment of their relative weight in order to provide the most comprehensive insight into the evolution of the state in Quebec and Ontario.

During the Quiet Revolution, the Quebec intellectual

leadership perceived itself as a liberal and progressive movement. The dominant ideology of previous Quebec administrations was in many ways considered an obstacle to change. In the 1960's, the elite in Quebec was preoccupied by the perceived need to "catch up" (rattrapage) with developments in government intervention taking place elsewhere in North America. Such an objective undoubtedly influenced the analysis of the history of the Quebec state that was conducted by social scientists following the Quiet Revolution.

The controversy over the role of the Quebec state as it was formulated in historiographical inquiry during the 1960's sought primarily to address the following question: why did political modernization lag behind social and economic development in the province of Quebec compared with Canada's larger provinces? In an effort to trace the origins of the "lag", some social scientists have referred to the British conquest of New France in the 1760's as the critical episode in the eventual "backwardness" of the Quebec state. Certain scholars have contended that the development of a colonial mentality by French Canadians had significant repercussions both on their changing conception of state authority and the decision making process which emanated therefrom. Moreover, it was contended that the conquest resulted in the "decapitation" of the colony's commercial class which was believed to have had a devastating impact on all subsequent

economic behaviour exhibited by French Canadians. Several analysts have extended this hypothesis to argue that French Canadians developed a suspicion of, if not outright hostility to the state. Influenced primarily by the psycho-cultural model, in his seminal article "Trois dominantes de la pensée Canadienne-Française ..." historian Michel Brunet argued that "agriculturalism, messianism and anti-statism" were the principal tenets of French Canadian thought well into the twentieth century. Despite the rather sweeping character of Brunet's generalizations, his thesis provided some analysts with a useful framework through which to interpret French Canadian economic and political behaviour and consequently for some time, it remained part of conventional wisdom in Quebec historiography.¹

The beginnings of an important alternative explanation to the emphasis on cultural/ideological considerations in evaluating Quebec's historical evolution emerged in the early nineteen fifties in an article by Albert Faucher and Maurice

¹ Dale Posgate and Kenneth McRoberts, ed. Quebec: Social Change and Political Crisis, Toronto: McClelland and Stewart, 1980. For a summary of the debate, see Cameron Nish. The French Canadians, 1759-1766: Conquered? Half-conquered? Liberated? (Toronto: Copp-Clark. Publishing, 1966). See also Michel Brunet, "Trois dominantes de la pensée canadienne-française; l'agriculturalisme, l'anti-étatisme, et le messianisme" in La Presence anglaise et les Canadiens, Montréal: Beauchemin, 1956.

Lamontagne.² The authors insisted that geographical and technological considerations merited much greater attention in determining the pattern and style of economic development in the province of Quebec. The traditional notion that cultural traits explained French Canadians poorer industrial performance as contrasted with their English Canadian counterparts in Ontario came under severe criticism from Faucher and Lamontagne. Such considerations as Quebec's access to markets, its development of natural resources and the existing transportation infrastructure, were vital towards an understanding of the province's evolution in the North American context. According to the authors, constant reference to the location factors prevailing in a given period was essential. Faucher and Lamontagne's work inspired numerous scholars, who participated in a significant re-evaluation of the role of the state during the 1960's.

Following the Quiet Revolution, most Quebec scholars showed a preference for structural explanations and proceeded to challenge Brunet's descriptions. Many argued that economic factors played a crucial role in shaping both political ideology and the behaviour of the state. They wondered whether ideological anti-statism which allegedly characterized the

² Albert Faucher and Maurice Lamontagne, "History of Industrial Development" in J.C. Falardeau, Essays on Contemporary Quebec (Quebec: Les Presses de l'Université Laval 1953). See also Jean Hamelin and Yves Roby, Histoire Economique du Québec, 1851-1896, Montreal: Fides, 1971.

behaviour of French Canadians possessed the continuity and rigour to which it was attributed by Brunet. The emphasis on structural factors as a key to understanding the evolution of the Quebec state is well articulated by H.V. Nelles in his ground-breaking work on resource development in Ontario. Stressing the belated intervention by Quebec administrators in the development of hydro-electric power in the province, numerous analysts regarded such inaction as the prime example of French Canadian anti-statism. Nelles, however, maintains that the 1906 nationalization of hydro-electric power in Ontario, which occurred nearly five decades prior to that of its eastern neighbour was the result of a combination of factors which were neither psycho-cultural nor ideological in their motivation.³

Among the major factors generally contributing to state control of hydro-electric power, Nelles refers to the size of municipal jurisdictions as playing a vital role in hydro-electric distribution, the abundance or scarcity of hydro-electric resources in a given area, whether industrial organization was monopolistic or competitive and, finally whether municipal/provincial relations were unstable or harmonious. Given the preceding considerations, Nelles concludes that conditions in Ontario were conducive to state

³ H.V. Nelles, The Politics of Development: Forests, Mines and Hydro-Electric Power in Ontario 1849-1941, Toronto: McClelland and Stewart, 1974.

intervention in hydro electricity in a way they were not in the province of Quebec.⁴ Nelles' work, however, pays insufficient attention to the role of public finance and the prevailing business cycle in determining whether the nationalization of hydro-electricity was feasible. In the following chapters it will be demonstrated that Ontario's superior financial condition placed the province in a better position to pursue important government projects at the outset of the twentieth century.

The intervention of provincial governments in railway enterprises provided yet another indice through which some analysts assessed the degree of coherence of anti-statist ideology. In this regard a major challenge is aimed at Brunet's hypothesis insofar as it coincides with the early Confederation period. In his book Promoters and Politicians historian Brian Young discusses the important role played by the Quebec government in the construction of the North Shore Railway during the 1870's. The ultimate takeover of this financially troubled railway by the provincial Conservative administration cost the government an exorbitant sum and had considerable repercussions on the subsequent spending

⁴ Christopher Armstrong and H.V. Nelles, "Contrasting Development of the Hydro-Electric Industry in the Montreal and Toronto Regions, 1900-1930," Journal of Canadian Studies, Volume XVIII, Spring 1983.

behaviour of the state.⁵ Irrespective of the prevailing ideology among French Canadians during that era, the Quebec government set a precedent for state ownership of railways. Although the takeover was short-lived (1876-1882), the Quebec administration along with many of the province's residents drew several lessons from what proved to be an unfortunate fiscal experience. With the takeover having occurred during difficult economic times it likely compounded the railway's inability to offer any short term financial return on what would emerge as a perpetual drain on government operations. Within a few years of the takeover, the government had accumulated a substantial debt which had ramifications for the prioritization of other necessary expenditures as annual interest payments began to assume an increasingly important part of the budget. Administrators generally recognized that this investment of public funds was less effective than was hoped and it seemed probable that any similar ventures would be met with great resistance in the foreseeable future.

In the case of Ontario, its first experience with public ownership of railways resulted in a very different situation from that of its eastern neighbour. For a number of reasons, the comparison of the two provincial projects is not straight forward. As noted above, the Quebec government assumed

⁵ Brian J. Young, Promoters and Politicians: The North Shore Railways in the History of Quebec 1854-85, Toronto: University of Toronto Press, 1978.

responsibility for a series of financially troubled railways during difficult economic times. For its part, Ontario's control of the Temiskamingue and Northern Ontario Railway was pursued towards the close of the nineteenth century under what were deemed as rather favourable economic circumstances. While the expansion of the North Shore railway into Quebec's Northern frontier resulted in minimal returns from mineral resources, the Ontario railway's penetration into its "Northern Wilderness" provided the province's administration with a significant return on its investment. Thus, while the overall comparison might be awkward, the experience of public ownership was relatively positive for Ontario while it seemed to be unrewarding for Quebec.⁶

During the 1960's, one of the most important reforms of the Quiet Revolution was the creation of a Ministry of Education by the provincial administration. It is sometimes forgotten that the Quebec administration established the forerunner for such a governmental structure as early as 1869. The original experiment lasted only six years, as the Department of Public Instruction was abolished in 1875 and responsibility for education was placed firmly with private clerical authorities.

⁶ Albert Tucker, Steam into Wilderness: The Temiskamingue and Northern Ontario Railway, 1902-1962; Toronto: Fitzheny and Whiteside, 1978. See also Peter George, "Ontario's Mining Industry" in Ian M. Drummond (ed.) Progress Without Planning: The Economic History of Ontario, Toronto: University of Toronto Press, 1987.

According to one analyst this reversal of policy originated with the effort to "remove the particularly sensitive field of education from the arena of patronage politics ..."⁷ In an interesting account of Quebec political culture (1840-1960) Ralph Heintzmann notes that conventional studies of the abolition of the Education Department tend to exaggerate the importance of ideological factors with respect to this measure by viewing it as either an expression of Quebec's traditional anti-statism and/or, not unrelated, the result of a resurgence of reactionary Catholicism.

Heintzmann maintains that pragmatic considerations resulting from the circumstances of the times may offer the most persuasive explanation as to why the politicians were willing to surrender responsibility for education to the clergy. A suspicion of partisan politics and political patronage he argues, rather than an ill-defined anti-statism, provide greater insight into the early separation of education from politics. Heintzmann notes that the abolition of the Department took place in the context of a major political scandal in which several provincial politicians were accused of corrupt practices. On the few occasions during the late nineteenth and early twentieth century when the proposal to re-establish the Ministry of Education resurfaced the

⁷ Ralph Heintzmann, "The Political Culture of Quebec, 1840-1960". Canadian Journal of Political Science, XVI: 1 March, 1983, p. 22.

principal argument against it was the need to maintain some distance between politics and education.⁸

Looking at Heintzmann's hypothesis from another optic, one might argue that the circumstances of the 1870's called for a rearrangement of government priorities by provincial administrators with the ensuing result that education was removed from the authority of politicians. In effect, responsibility for education, as well as broader social policy, shifted as a function of an evolving fiscal and economic situation in the 1870's whereby the significant cost associated with managing those sectors was deemed too great a burden for a financially weak state that was reluctant to increase taxation. Nor should we overlook, in the circumstances of the period to which Heintzmann refers, the consequences of the Quebec state's considerable railway investment during that era.

The impact of urbanization, industrialization and population growth in late nineteenth century Canada frequently called for some local government initiatives, however limited, in the living and working conditions of the people to supplement the activity of private organizations. A major criterion in judging state behaviour has been the nature and extent of government intervention in social and welfare functions. It

⁸ Ibid.

is generally assumed that the Catholic church played a far more extensive role in affecting the living and material conditions of French Canadians than did clerical authorities elsewhere in Canada. In his study of the first decade of activity in the Quebec Legislature (1867-1878), Marcel Hamelin observed that the provincial government was quite preoccupied with railway development and financial matters. He contends that a major factor accounting for the absence of any significant government intervention in social and welfare functions was the fiscal conservatism of Quebec municipalities as opposed to their Ontario counterparts. Rather than "ideological" considerations, Hamelin suggests that there was a difference in mentality between Quebec and Ontario municipal officials regarding their respective obligations. Without the commitment of Quebec municipalities, the provincial leadership was inclined to delegate substantial responsibility for social and welfare initiatives as well as the educational sector to the clerical authorities.⁹

⁹ Marcel Hamelin, Les Premières années du parlementarisme québécois (1867-1878), Québec, Les Presses de l'Université Laval, 1974. It should be noted that no study has documented the differing degree of clerical intervention between Quebec and Ontario in this regard. See Antonin Dupont, Les Relations entre l'Eglise et l'Etat sous Louis Alexandre Taschereau 1920-1936. Guérin, 1972. See also Louis Philippe Audet, Histoire de l'enseignement au Québec. 2 vols., Montreal: Holt, Rinehart and Winston, 1971, and Philippe Sylvain et Nive Voisine, Histoire du catholicisme québécois: Réveil et Consolidation, Tome 2, 1840-1898, Boréal, Montréal, 1991.

As it applies to government activity in social and welfare initiatives, the structuralist approach to the historical role of the Quebec state has been perhaps best reflected by the work of Terry Copp. Inspired by the work of Faucher and Lamontagne, Copp recognizes that prior to 1930 Quebec administrators were far less active than their Ontario counterparts in the area of social policy. He insists, however, that the reason for this lack of intervention was less motivated by ideological considerations than certain analysts may have presumed. Copp maintains that a lower level of per capita wealth among the Montreal population prevented municipal and provincial administrations in Quebec from making substantial fiscal contributions to social and welfare initiatives.¹⁰

It should be noted that prior to the establishment of the welfare state, charitable and relief efforts were considered the preserve of the clergy and there was widespread resistance to secular encroachments in this sector throughout North America. Copp points out, nonetheless, that at the beginning of the twentieth century "...there were few differences between Quebec and the rest of North America with regard to the kind of social reforms which were advocated."¹¹

¹⁰ Terry Copp. The Anatomy of Poverty: The Condition of the Working Class in Montreal, 1897-1929, Toronto: McClelland and Stewart, 1974. pp. 144-45.

¹¹ Ibid., pp. 144-145.

A cursory analysis of the statements made by politicians during the period provides some support for Copp's hypothesis. Historian Bernard Vigod in his studies of early twentieth century Quebec provincial Premiers Lomer Gouin and Louis-Alexandre Taschereau offered evidence of restraint in fiscal practices affecting the government's contribution to charitable and relief efforts.¹² For example, Gouin (1905-1920) explained his province's considerably lower outlays in this sector by stressing the "zèle de nos communautés religieuses et l'admirable charité de nos populations, qui suppléent dans une large mesure à l'action gouvernementale."¹³ Copp concludes that "the crucial variable was public finance not ideology" for the limited interventions by Quebec's municipal and provincial administrations in the area of social service.¹⁴

The evaluation of the relationship between provincial public finance and state activity - deemed essential by Copp - had until recently not been subjected to a thorough analysis. In their article on "Public Expenditure in Ontario and Quebec ..." André Blais and Kenneth McRoberts note that a flurry of

¹² Bernard L. Vigod, Quebec before Duplessis, The Political Career of Louis-Alexandre Taschereau, Montreal and Kingston, McGill-Queen's University Press, 1986, p. 312.

¹³ Lomer Gouin. Question Actuelle: Le Remaniement des Subsidés Fédéraux en Faveur des Provinces, Montréal: Librairie Beauchemin, 1903, p. 42.

¹⁴ Copp, op. cit., p. 144.

comparisons on levels of expenditure between Quebec and Ontario have emerged. They add that "over the years, academic, journalists and politicians alike have used expenditure as a rough measure of the scope of governmental activity and of the degree of governmental efficiency."¹⁵ For many years, studies have been conducted on particular aspects of Canadian public finance, such as taxation, public expenditure and the cost of resource development. During the late 1930's, the author of one of the earliest comprehensive works in the area, Stewart Bates, noted that theories of public expenditure tended toward "a tripartite division of public finance into expenditure, taxation and borrowing, analyzing each separately." He pointed out that such an approach neglected that the incidence and effects of a tax depended on the manner in which resources raised by the government were spent. By rigidly separating state income and state outlay, Bates believed that analysts narrowly studied the issues from "a strict accounting point of view."¹⁶

In his own study on the Financial History of Canadian Governments, Bates focused primarily on the relationship

¹⁵ André Blais and Kenneth McRoberts, "Public Expenditure in Quebec and Ontario: Explaining the Differences", Journal of Canadian Studies, Volume 18, no. 1, Spring, 1983, p. 28.

¹⁶ Stewart Bates, "Classifying note on the Theory of Public Finance" in Canadian Journal of Economics and Political Science, Volume 2, no. 2, May, 1937, p. 164.

between government financial activity and business cycles. He maintained that in periods of economic dislocation new areas of government expenditure, particularly social burdens fell upon the provinces. He referred to the massive debt accumulated by Quebec in conjunction with railway outlays in the latter half of the nineteenth century as the reason for the province's fiscal "conservatism" of the early twentieth century. Thus while other provinces undertook the cost of various enterprises, Quebec allowed the private sector to assume the cost of such initiatives and this was extended to education and welfare charges which were assumed by the clergy to a more significant extent than elsewhere.¹⁷

In one of the most important contemporary studies of Canadian public finance, Richard Bird highlighted what he perceived to be a traditional neglect in the analysis of government expenditure. He attributed this omission to a feeling that the "level and structure of expenditure were determined politically and thus beyond the economists proper orbit of study."¹⁸ Bird believed that the abundance of statistical data on revenues and expenditures had to be evaluated in conjunction with the political forces affecting overall public

¹⁷ Stewart Bates, Financial History of Canadian Governments, Appendix of the Royal Commission Report on Dominion-Provincial Relations, Ottawa: King's Printer, 1939.

¹⁸ Richard Bird, The Growth of Government Spending in Canada: Toronto: Canadian Tax Foundation, 1970, p. 4.

finance. Bird claimed that a number of analysts gave the impression that the level of government was set, as if it were in a vacuum. He added that ideology should not be completely dismissed as an explanatory factor in the determination of public expenditure. Bird concluded that "in reality the level of public expenditure in any one country at any point in time is the result of an interlocking series of decisions and actors, past and present."¹⁹

Despite Bird's assessment, the body of literature that has emerged since the 1970's dealing with comparative public finance has focused overwhelmingly upon expenditure patterns in an effort to compare the role of various provinces or states. Recently several articles have compared per capita provincial expenditure in Quebec and Ontario on a sectoral basis in an effort to make conclusions about provincial government priorities. Perhaps the most important contemporary work on the role of public finance in the evolution of the Quebec state is that of University of Montreal political scientist James Iain Gow.

In his article "L'administration québécoise de 1867 à 1900: un état en formation" Gow discusses the prioritization established by the Quebec government on the basis of its spending priorities. While he does not overlook the

¹⁹ Ibid.

provincial government's sources of revenue, Gow's conclusions are based primarily upon the changing nature of expenditures from Confederation to the close of the century. Gow argues that the Quebec state was slow to organize revenue collection on a sound basis and with regard to spending gave low priority to the police function.²⁰ He maintains that in the early years of the Federation high priority was given to railway construction, to the administration of justice (other than police) and to spending on education. Gow attributes this particular pattern of intervention to the difficult economic situation which prevailed from 1873-1896, the uncertainty of the new federal system and particular constraints upon Quebec arising from the prevailing "laissez-faire" doctrine and the influence of the clergy. Given the principal objective of economic development, the obstacles previously cited had the affect of limiting the options available to the government at that time.²¹

Gow also stresses the severity of the fiscal situation which emerged in Quebec during the 1870's as a result of the costly railway investments made by the provincial government. Indeed, he remarks that Quebec's ability to escape the massive debt it had amassed was stalled by the economic slowdown which had a

²⁰ James Iain Gow, "L'administration québécoise de 1867 à 1900: un état en formation" in Canadian Journal of Political Science. XII: 3 September, 1979, p. 557.

²¹ Ibid.

profound impact on the continent from the 1870's to the end of the century. The importance of debt servicing had repercussions for the entire budget and consequently gave rise to the lower level of state activity. Finally, Gow points out that unlike Ontario, the municipalities of Quebec appeared unable to assume as significant an expenditure so that a greater fiscal burden fell upon the latter provincial government. While this hypothesis has yet to be adequately tested, Blais and McRoberts have suggested that comparisons of government spending should also examine expenditures at the municipal level and school boards, particularly, given that local bodies traditionally have played a greater role in overall Ontario public expenditure than in Quebec.

In his anthology on Ontario economic history, Ian Drummond points out that during the period 1867-1914 while provincial finance was always intertwined with municipal finance, the connections tended overtime to become fewer and weaker. In contrast to the financial evolution of Quebec, Drummond remarks that in Ontario, revenue and expenditure grew more or less together and with little disruption from the late 1860's until the turn of the century. Given the insignificant cumulative debt which Ontario possessed by 1900, Drummond argues that "...the province was managing its finances in an extremely conservative way."²² Unlike Quebec, in the first

²² Ian Drummond, op. cit., p. 341.

thirty years of the Federation, the province of Ontario regularly achieved annual surpluses of revenue over expenditure. It was thus able to finance railway projects either directly or indirectly from its ordinary budget. Drummond pointed out that the activity of the state in Ontario was virtually unburdened by the spectre of debt and subsequently the patterns of developmental spending were stable.

Heavily influenced by the structuralist approach, the more important recent overviews of Quebec history, have attributed somewhat more importance to the impact of public finance in the evolution of the state. In their book Quebec: A History, Paul-André Linteau et al. argue that the period from 1867 to 1897 was characterized by financial instability with which Quebec administrations were constantly preoccupied. The extent of the government's indebtedness seriously limited its capacity to intervene in such sectors as education and agriculture where, according to Linteau et al., there was an obvious need for its presence.²³

From a comparative standpoint, a crucial variable which benefitted Ontario, was the much larger number of financially and economically stable municipalities which emerged in the

²³ Paul André Linteau, René Durocher and Jean-Claude Robert, Quebec: A History 1867-1929, Toronto: James Lorimer and Company Publishers, 1983, p. 221.

latter half of the century. This factor has been given particular attention in the study of hydro-electric development conducted by H.V. Nelles and Christopher Armstrong.²⁴

While some analysts have stressed the fiscal impact of the respective responsibilities of provincial and municipal governments, yet another important consideration in the role of the state has been the financial relationship between federal and provincial governments. Many Quebec historians contend that by creating a strong central government, the B.N.A. Act inevitably rendered the province dependent on the federal authorities, thus weakening the government of Quebec. This situation of dependence, it is widely held, was one of the main factors contributing to the pursuit of autonomy by successive Quebec Premiers shortly after the 1867 agreement.

Linteau et al. rightly note that the Confederation arrangements gave the federal government predominance in the financial sphere. They fail, however, to adequately elaborate upon the financial consequences which such predominance had on Quebec's state activity. The authors contend that:

In Canada the constitution gave the federal government both the largest share of the power to intervene in the economic sphere and the most substantial sources of revenue. In the first decades after Confederation, the Quebec government

²⁴ Ibid, p. 224.

was in a situation of weakness that limited its capacity to act.²⁵

In his book Structure and Change: An Economic History of Quebec, Robert Armstrong suggests that throughout the nineteenth century, the provinces found themselves financially dependent on the federal government and in particular on the annual subsidy provided by the latter. Armstrong refers to the negative affect of provincial funding of railways in the 1880's on all future government intervention. He concludes that from the 1890's through much of the early twentieth century, the Quebec government practiced the strongest of "laissez-faire" strategies in comparison with other provincial administrations.²⁶

In assessing the impact of the Confederation arrangements on state activity in Ontario, Ian Drummond arrives at a different conclusion. He maintains that in 1867 Ontario acquired a relatively simple fiscal structure with a rather narrow range of functions and that the sizeable Dominion subsidies made ordinary expenditure easily manageable. Drummond concludes that this situation continued with remarkably little basic change until the 1880's: thereafter change was rapid, with

²⁵ Ibid. p. 221.

²⁶ Robert Armstrong, Structure and Change: An Economic History of Quebec, Toronto: Gage Publishing, 1984, p. 276.

respect to both revenues and expenditures.²⁷

Given these somewhat divergent views of the impact of the Federation arrangements on the fiscal position of the two major provinces a comparative analysis of the finances of Quebec and Ontario following 1867 may be instructive. In what way did the provinces respective financial situations contribute to greater or lesser dependence upon the central authority? What expectations did politicians have regarding the financial outcome of the 1867 agreement? To what extent were the expectations met by financial developments in the remainder of the nineteenth century? What role did the management style and decision-making process of provincial administrators have in affecting the two provinces financial evolution?

The following chapter will look at the fiscal origins of the Confederation and examine those aspects of the 1867 agreement which may have contributed to disparities that emerged in the financial positions of Quebec and Ontario. In Chapters 3 and 4 respectively an analysis of the principal revenues and expenditures of the provinces will be conducted. In the case of revenues, we will look at those factors which from 1867 to 1896, enabled Ontario to surpass Quebec from a financial standpoint. We will look at the strategies adopted by the

²⁷ Drummond, op. cit., p. 340.

provinces in dealing with the steady increases to their overall expenditure that followed Confederation. In the examination of expenditures, the focus will be on those factors which influenced the shifts in spending priorities which took place during the period. In Chapter 5, the specific case of expenditures on railway development in Quebec and Ontario will be considered. The year to year management of the provincial budget and, in particular, the nature of annual surpluses and deficits will be assessed in Chapter 6. A look at the broader financial situation of Quebec and Ontario will be presented in Chapter 7 which focuses on the position of the respective provinces' assets relative to their liabilities. Finally, in Chapter 8, specific fiscal issues influencing the general relationship between the Dominion and the provinces will be discussed.

CHAPTER 2
THE FINANCIAL ARRANGEMENTS OF 1867:
EXPECTATIONS AND RESULTS

As was indicated in the preceding chapter, a number of studies have considered the role of the state in Quebec and Ontario from the standpoint of the relationship between federal and provincial governments. The principal focus of such discussions has often been an examination of the nature of federalism as it was formulated in 1867 and how the Federation evolved in subsequent decades. Most observers believe that the original concept of federalism as conceived by its architects assumed a strong central authority or legislative union in which the role of the provinces, particularly in economic matters, would be limited. Given the drive for provincial autonomy which emerged shortly after 1867, some might question whether the Fathers of Confederation put into place the appropriate mechanisms to ensure that the notion of centralisation which supposedly informed the agreement could be translated into reality.

From the perspective of the provincial treasurers of Quebec and Ontario in the immediate post-Confederation period, the precise character of the Federation could not be rigidly defined. Therefore, the treasurers left themselves open to numerous possibilities in the evolution of federal-provincial relations. The latter view was reflected in the inaugural budget speeches of the provincial treasurers. For his part, in 1868, Quebec treasurer Christopher Dunkin remarked that:

After an experience of 25 years of the working of a system, which was called when first introduced a

Legislative Union of Upper and Lower Canada into the late Province of Canada ... which gave poor promise that it could work well ... a new system of government has been inaugurated under which we meet here. This system is called a Federative Union in contradistinction to a Legislative Union.

We are not scheming to bring about any changes of our system: but are sincerely desirous of working it in the best way we can, careless in what direction it may tend whether more towards a Federation or a Legislative system.¹

Many social scientists believe that Prime Minister John A. Macdonald was initially preoccupied by the possibility that there would be disputes over general and local powers. Macdonald stressed that "each province would have the power and means of developing its own resources and aiding its own progress after its own fashion and in its own way."² Nonetheless, local authority was at least in theory curtailed from the outset. Aside from the federal powers of reservation and disallowance, the central government might declare any local work, although situated wholly within a province to be for the general advantage of the Dominion and thereby bring it within its own jurisdiction. Political scientist Jennifer Smith notes that contemporary studies of Canadian federalism

¹ Financial Statement of the Honourable Christopher Dunkin, Treasurer of the Province of Quebec, submitted 14th February, 1868, printed at the office of the Quebec Morning Chronicle, pp. 5-6. Hereafter, the Legislative Assembly of Quebec will be cited as the publisher for budget speeches.

² Peter B. Waite ed., The Confederation Debates in the Province of Canada, 1865, Toronto: McClelland and Stewart Limited, 1963, p. 45.

generally conclude that the decision to deny serious institutional expression to local concerns within the central government served to weaken rather than strengthen it.³

Recent analysis of the Confederation arrangements has stressed the lack of clarity which characterized the respective federal and provincial roles. In his study on "Constitutional Politics and the Provincial Rights Legacy in Canada" Robert Vipond argues that the full implications of the federal principle were not well understood in 1867. Shortly following the Confederation agreements, an important difference of opinion emerged as to the meaning of the federal principle, particularly given the strong support for local management of local affairs. Vipond maintains that once the "founding myth of provincial autonomy was absolutized, it became difficult if not impossible to contain it."

Both federal and provincial leaders ultimately exploited a certain ambiguity in the 1867 agreements to perpetuate their own vision of the nature of the relationship between the two levels of government. Vipond adds that once the concept of provincial autonomy gained momentum, local politicians quickly

³ Jennifer Smith, "Canadian Confederation and the Influence of American Federalism" in Canadian Journal of Political Science, XXI: 3 September, 1988, p. 462.

used it to their advantage.⁴

Many analysts recognize that one of the primary forces behind the creation of the 1867 Federation was the need to re-adjust the financial arrangements between the United Provinces of Canada around a more orderly structure. Analysts of the financial arrangements of the Federation agree that the federal principle was designed to provide dominance to the central authorities in fiscal matters. Indeed over the first thirty years of the Federation, the desire for greater provincial autonomy on the part of certain Quebec and Ontario politicians, did not translate into changes in fiscal powers. Economist J. Harvey Perry notes that in 1867 the new national government was given an untrammelled power to levy taxation in any form while the provinces were to receive subsidies from the Dominion and be restricted to direct taxation in their effort to expand revenue. The latter form of taxation was considered so unpopular in 1867 that the power to use it was deemed more an embarrassment than a privilege. Perry concludes that the granting of the broadest financial powers to the Dominion suggests that the Fathers of Confederation believed that their's would be the major level of government and that a largely subordinate role was anticipated for the

⁴ Robert Vipond, "Constitutional Politics and the Legacy of the Provincial Rights Movement in Canada" in Canadian Journal of Political Science, XVIII: 2 June, 1985, p. 275.

provinces.⁵

In order to better understand the perspective of the Fathers of Confederation, it is useful to look briefly at the economic causes which gave rise to the 1867 agreement. The Confederation arrangement was to some extent born out of a concern that the ill-coordinated spending of local administrators bore significant responsibility for plunging the pre-1867 Union into financial turmoil. It is important to look at the financial conditions which prevailed prior to the 1867 agreement in order to understand why a centralized fiscal structure was endorsed. During the pre-Confederation period the British North American colonies had built up a massive debt arising out of ambitious canal and railway projects and in particular, the Grand Trunk Railway. The burden of debt was exacerbated in the late 1850's when, in 1857, a severe financial crisis emerged. From that year on the situation of Upper and Lower Canada continued to deteriorate and it became extremely difficult to finance existing debts by continued borrowing from traditional sources.

Some historians argue that by the end of the 1850's British authorities began to strongly advocate the concept of a federative Union of their North American colonies. The

⁵ J. Harvey Perry, Taxation in Canada, Toronto: University of Toronto Press, 1951. See Chapters 3 and 8 for a detailed examination of these issues.

British apparently hoped that such a structure would help restore some measure of fiscal and political stability. An eminent historian contended that the proposition of the British might be interpreted as "an effort to assist in the creation of the great holding company in which would be amalgamated all those divided and vulnerable North American interests whose protection was a burden of the British state and whose financial weakness was a grievance of British capital."⁶

During the pre-Confederation discussions it was generally held that a new national government would assume responsibility for the accumulated debt burden, pursue ongoing projects (particularly railway initiatives) and cover a significant portion of future developmental costs. In so doing it was possible that the burden created by "current" debt financing would be erased and the credit position of the colonies in the London market would ultimately be restored. The resolution of the debt problem figured prominently in discussions over the eventual designation of revenues to federal and provincial bodies.

In his study of the financial arrangements between the

⁶ W.A. Mackintosh, The Economic Background of Dominion-Provincial Relations, Toronto: McClelland and Stewart, 1964, pp. 16-18, and Donald Creighton, "Economic Nationalism and Confederation" in Towards the Discovery of Canada, Toronto: Macmillan of Canada, 1972.

provinces and the Dominion, A.W. Boos suggests that during the Confederation debates, the principal negotiators considered at least two options with regard to fiscal matters. One possibility was to concede or grant a source of indirect taxation to the provinces while another approach was for the federal authorities to collect revenues and redistribute them to local governments for local purposes. A third alternative would have been to compel the provincial governments to impose direct taxation but given the disdain for this measure, its adoption may have threatened the enactment of Confederation.⁷ While offering the provinces the possibility of direct taxation, the Fathers of Confederation selected the second approach and in so doing, retained for the federal government the overwhelming share of revenues.

The new national government assumed nearly the entire debt amassed by the provinces prior to Confederation and in exchange insisted on the most important source of income; that which was generated by custom duties. With their debts nearly eliminated, the reborn provincial entities were to receive a per capita subsidy from the federal government which would constitute their largest source of revenue. These subsidies had been granted in consideration of the "abandonment to the Central Government of the Customs and Excise duties

⁷ A.W. Boos, The Financial Arrangements Between the provinces and the Dominion, National Problems of Canada Series, Toronto: Macmillan Co., 1930, p. 8.

theretofore collected by the provinces".⁸

At the outset of Confederation, the subsidies provided to the provinces seemed large enough to cover their most important expenditures. A.T. Galt, an instrumental figure in the development of the 1867 financial arrangements, assumed that the per capita subsidies would pay for the administration of justice, education, hospitals, charities and other items not associated with the basic cost of government. He noted that independent of the subsidies the provinces would have other sources of revenue which they could apply for the comfort of their people and the effective development of their resources. Galt's vision of the future financial security of the provinces proved more accurate for Ontario than Quebec in the years immediately following Confederation.

Contrasting the financial position of Quebec and Ontario became a common practice among provincial treasurers shortly after Confederation. The sibling rivalry, which originated in the pre-Confederation period, continued unabated between the

⁸ Perry, op. cit. See also W.P.M. Kennedy and D.C. Wells, The Law of the Taxing Power in Canada, Toronto: University of Toronto Press, 1931. The subsidies to be obtained by the provinces would take two forms: (1) a specific sum of 70,000 dollars and (2) a subsidy of 80 cents per head of population established by the census of 1861. The federal government proposed to assume the sum of 62,500,000 dollars of debt leaving a balance of excess debt of about 10,000,000 dollars to the provinces. See Chapters 3 and 7 for more details on the subsidy.

two major provinces. From the standpoint of public finance, the provinces not only evaluated their dependence upon the federal government but their ongoing relationship with each other. The nature of these relationships affected the way in which a province perceived its relative degree of autonomy.

Some politicians optimistically believed that the Confederation arrangements would put an end to the perception of financial misallocation that existed between Lower Canada (Quebec) and Upper Canada (Ontario) before 1867. In the context of the existing "sibling rivalry" any progress or diminution in a province's fiscal or economic gain was believed to have been attained at the expense of its neighbour. During the "Confederation Debates", George Brown stated that a great injustice would be removed in Upper Canada under a proposed new arrangement. Just prior to 1867, residents of Upper Canada frequently insisted that while their province contributed over three quarters of the overall revenue to the public treasury of the colonies it had less control over the dispersal of public monies than did the people of Lower Canada. Residents of Upper Canada concluded that vast sums of money were being systematically withdrawn from the public treasury for the local purposes of Lower Canada, this despite the disproportionate contribution made by the Upper Province.⁹

⁹ Waite ed., op. cit. p. 63.

During the Confederation debates, Brown contended that by ensuring within the new Federation that local governments would have control over local affairs, the concerns of residents of Upper Canada might be satisfied. Under such an arrangement, Brown claimed that if his "friends" in Lower Canada chose to be extravagant, and he insisted they often were, then they would have to assume responsibility for the burden. This new scheme, Brown noted, would put an end to the allegation that one province constantly contributes funds while the other is constantly spending monies. Brown concluded that henceforth "each province would have to determine for itself its own wants and find the money to meet them from their own resources."¹⁰

The leading French Canadian architect of Confederation, George-Etienne Cartier, emphasized the potential economic benefits promised by the 1867 arrangements. Nonetheless, many of his French Canadian constituents were attracted by the perception of a possible greater degree of autonomy under the new agreement. Like their English Upper Canadian counterparts, perhaps the majority of the French in Lower Canada wanted to be separated as much as possible from the other provinces. Indeed, in his book The French Canadian Idea of Confederation, 1864-1900, Arthur I. Silver concludes that:

Conservative propaganda made Confederation

¹⁰ Ibid., p. 65

attractive by stressing, and even exaggerating, the powers which the provinces would have, and by minimizing those of the federal government, it emphasized the separateness and sovereignty of the provinces.¹¹

Although, in Lower Canada, many supporters of the new Federation placed significant stress on the supposed firm recognition of local control over local affairs less was said regarding the ultimate fiscal disentanglement from Ontario. The advocates of Confederation in French Canada concentrated primarily upon the relationship between revenues and expenditures under the proposed new scheme and expressed their optimism about their province's reasonably certain financial security. Opponents of the arrangement were less enthusiastic about the fiscal prospects for their province. In a response to its critics, *Le Pays*, the principal organ of George-Etienne Cartier argued that the estimated annual income furnished from a variety of sources would easily cover expenditure. *Le Pays* remarked that:

Comment! Avec \$2,000,000 nous ne pourrions faire face a nos dépenses locales, qui seront insignifiantes ... (au contraire)... Nous n'avons jamais été aussi riches. Il nous sera donc loisible de nous livrer aux plus utiles améliorations dans notre belle province de Québec, avec le surplus de nos revenus. En face de ce magnifique résultat, ne devons-nous pas nous sentir plein de reconnaissance pour les hommes d'état énergiques et prévoyants qui

¹¹ Arthur I. Silver, The French Canadian Idea of Confederation, 1864-1900, Toronto: University of Toronto Press, 1982, p. 218.

nous ont ménagé de telles ressources.¹²

Some decades later, Quebec politicians considered naive the fiscal forecast presented by Cartier. The view that substantial revenues would confront modest expenditures proved to be at the very least an exaggeration. In the early years of Confederation both Quebec and particularly Ontario were as predicted, able to accumulate an excess of income over expenditure. As some observers maintain, this condition was sustained by adopting a cautious approach in the spending behaviour of the provinces. It seemed safe to assume that the provinces had no desire to return to the financially precarious position in which they found themselves prior to Confederation. At the time of Confederation, A.T. Galt observed that should those charged with the administration of local affairs exceed their earnings (according to Galt's own estimates), they will be guilty of a degree of profligacy and extravagance for which a speedy remedy will be found by the people."¹³

During the nascent stage in their financial evolution two other factors contributed significantly to the practice of some form of fiscal restraint by the provinces. The exact division of pre-Confederation assets among the provinces

¹² This statement has been cited by several historians. Here it is from the following source: Lomer Gouin, "Question Actuelle...", op. cit., p. 29.

¹³ Waite, op. cit., p. 69

remained uncertain. In addition, the disposition of accumulated interest payments on the pre-Confederation debt was undetermined so that 10,000,000 dollars remained in excess of what the Federal government agreed to assume under the Federation accord. Given these unresolved matters, in 1868 one provincial treasurer concluded that it was "physically, constitutionally and legally" impossible to establish the financial positions of Quebec and Ontario.¹⁴

Despite the hope of some politicians, the new Federation did not eliminate the sense of sectional jealousy and indignation which previously existed between the provinces. Instead it merely transformed old disputes between neighbours into an interprovincial rivalry where substantial emphasis was placed upon the financial behaviour of one administration by the other. When it became apparent shortly after 1867 that from a financial standpoint, Ontario fared much better than its neighbour, treasurers from both provinces offered explanations for the prevailing situation. For their part, Ontario treasurers claimed that the superior financial performance of their province was to some extent a logical outcome given the steady economic progress made by Upper Canada from 1839 to

¹⁴ Financial Statement of the Honourable Christopher Dunkin, Treasurer of the Province of Quebec, submitted 14th February, 1868 printed at the Office of the Quebec Morning Chronicle, p. 11.

1867.¹⁵ Over that period, the population of Upper Canada increased from 450,000 to 1,750,000 persons. In addition over the same period while the total of assessed lands increased from approximately seven to nineteen million acres, the value of assessed property rose from 21,000,00 to 245,000,000 dollars. From a comparative standpoint, Ontario treasurer E.B. Wood made reference to a vital sign of economic advancement, the investment in railway and canal construction in his province relative to that of Quebec. For the period 1839-1867 Wood produced the figures listed below:

TABLE 2-1
Contribution of Government and Private Sector
of Upper Canada and Lower Canada to Railways and Canals
1839-1867

In \$	Railways	Canals	Total
Government Contribution			
Upper Canada	13,000,000	11,800,000	24,800,000
Lower Canada	7,000,000	6,900,000	13,900,000
Private Sources			
Upper Canada	80,000,000	400,000	80,400,000
Lower Canada	36,000,000	40,000	36,040,000

SOURCE: Speech of the Honourable E.B. Wood, Treasurer of the Province of Ontario, 10th December, 1869, in the Legislative Assembly of Ontario, p. 19.

The above figures demonstrate that more than twice as much capital was invested in transportation infrastructure in

¹⁵ Speech of the Honourable E.B. Wood, Treasurer of the Province of Ontario, 10th December, 1869. Legislative Assembly of Ontario, Toronto: Hunter Rose & Co., 1869, p. 18.

Ontario compared to Quebec for nearly thirty years prior to the enactment of Confederation. We also observe the dominant role of the private sector in funding such development. The direct and indirect fiscal benefits arising from such investment clearly continued to have ramifications for the post-Confederation period. It is important to note that these substantial gains were made despite claims that Upper Canada was labouring under financial injustice through its association with Lower Canada. E.B. Wood felt it was necessary to allude to these advances for the purpose of showing that "... we are apt to forget as we pass along, floating with the tide, the gradual growth of everything around us, we are apt to forget the progress we have made ..."¹⁶

Many Ontarians held that despite their province's "separate and independent existence" from Quebec under the Confederation arrangements, they could still be subjected to the potential burdens of their political links with their eastern neighbour and subsequently not receive a fair return on their own contributions.¹⁷ For Ontario Liberal treasurer Alexander

¹⁶ Ibid.

¹⁷ Ibid., p. 20. As Treasurer E.B. Wood noted: "If the reasons given ... for Confederation were sound, namely, the doing away with party strife, how can they [the opposition] now, that we have a separate and independent existence, free from Lower Canada domination, justify a resort to those modes of political actions and warfare which in times past, as they say, wrought so much evil to the country home and abroad, precipitated a dead lock and necessitated and brought about Confederation".

Mackenzie - who became Prime Minister of Canada in 1873- it seemed reasonable that the larger and wealthier portion of a country would contribute more than its share to the whole.

Mackenzie noted that:

... under any union ... the fact would still remain that we would be called upon to contribute more than our sister Province on account of our greater consumption of dutiable goods as well as our ability to pay additional taxation, because of the superior energy of our people and our possession perhaps of a superior country.¹⁸

Mackenzie's characterization that the superior energy of Ontarians played any role in that province's fiscal and economic advantage was a view to which many Quebec politicians took exception. The latter argued that the reasons for the financial disparity which emerged between the two provinces were to be found in pre-Confederation economic development combined with certain aspects of the 1867 arrangements that were particularly favourable to Ontario. Quebec politicians also questioned George Brown's belief that the pre-Confederation period was highlighted by the unfair treatment of Upper Canada as a consequence of its assuming a disproportionate fiscal burden relative to Lower Canada. It was pointed out that when in 1841, Upper Canada entered the original union, it was several million dollars in debt, while Lower Canada was free of any similar obligation. Indeed,

¹⁸ Speech of the Honourable Alexander Mackenzie, Treasurer of the Province of Ontario, 18th February, 1872, delivered in the Legislative Assembly of Ontario, 1872, p. 1.

Quebec treasurer J.G. Robertson pointed out that: "...en 1841, le Haut-Canada était en faillite, tandis que le Bas-Canada présentait un état prospère..."¹⁹

Contrary to Ontario treasurer E.B. Wood, following 1867, Quebec politicians argued that their province bore the larger burden in the pre-Confederation period. The result of substantial investment in public works in pre-Confederation Upper Canada left Quebec in a less developed state relative to its neighbour. One Quebec politician noted that:

Cette province se trouvait donc à posséder un territoire plus développé que le nôtre, plus enrichi par des entreprises d'utilité publique. Notre province n'avait pas eu ces avantages-là. Voilà dans quelles circonstances difficiles la province a commencé son existence nouvelle, lors de l'établissement de la confédération en 1867. Nous avons eu en outre le désavantage d'être chargé d'une dette plus forte que celle que nous aurions dû avoir. De sorte que non seulement nous aurions aidé l'Ontario à faire sa richesse, mais encore il a fallu supporter le poids d'une partie de sa dette.²⁰

Generally, Quebec treasurers admitted that both provinces came to the Federation with their respective financial problems. But Quebec politicians insisted that while Confederation promised a "new beginning" for the provinces (by eliminating

¹⁹ See Discours sur le budget prononcé par l'Honorable J.G. Robertson, Trésorier de la Province de Québec, à l'Assemblée législative, le 24 novembre 1871, p. 8. and see "Speech of Mr. Blanchet, member for riding of Beauce and Quebec Provincial Secretary" in Débats de l'Assemblée législative du Québec, (hereafter DALQ), 27 mars, 1885, p. 480

²⁰ Ibid.

their accumulated debts) Ontario retained important interest bearing assets from the pre-1867 period, that enabled the province to enter the Federation on unequal terms with its neighbour. These assets were a source of controversy between the provinces in the first two decades of the Federation. While the Federal government was committed to assuming nearly the entire pre-Confederation debt, it relinquished local assets to the provinces as a potential source of income for the support of their local institutions. Amongst these assets was the large Municipal Loan Fund. The Fund was created in 1852 in an effort to permit municipalities to pursue major projects by using the credit of the province. Originally, only municipalities in Upper Canada had access to the Fund. When the law was amended in 1854 to provide funds to Lower Canada municipalities, the Upper Canada municipalities had already borrowed approximately 4,700,000 dollars.²¹

In 1852 there were no limits as to the amount a municipality might acquire. When, however, the law was amended in 1854, regulations were enacted that prevented any municipality from borrowing more than 20% of the value on its assessed property. As a result of the frequently lower valuation of property in Quebec as opposed to Ontario, municipalities in the latter province had greater access to the Fund. In 1864 when the

²¹ Ronald Rudin, "Boosting the French-Canadian Town: Municipal Government and Urban Growth in Quebec 1850-1900" in Urban History Review, Volume XI, no. 1, June 1982, pp. 3-4.

final loans were extended, Upper Canadian municipalities had acquired approximately 7,300,000 dollars. While Lower Canadian municipalities borrowed approximately 2,400,000 dollars.²²

Although the Municipal Loan Fund was generally considered a joint asset of the provinces, Ontario treasurer E.B. Wood claimed that there was not the slightest doubt that under the Confederation arrangement, the Upper Canada Fund would be assigned to Ontario while the Lower Canada Fund would be the property of Quebec.²³ There was a recognition that by dividing the Fund in this way, significant advantage would accrue to Ontario. Indeed after 1867, while several Ontario municipalities that borrowed from the Fund were in a position to pay both annual interest and principal to the province, their Quebec counterparts found themselves frequently unable to repay any portion of the loans.

Aside from the Municipal Loan Fund, the province of Ontario was able to carry forward a number of interest bearing assets acquired in the pre-Confederation period. The most important of these assets was the Upper Canada Building Fund. This Fund was established in 1854 as additional compensation for funds

²² Ibid.

²³ Speech of the Honourable E.B. Wood, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, 10th December, 1869, op. cit., p. 11.

employed by Lower Canada designed to liquidate seigniorial holdings. By 1867 the value of this asset to the province of Ontario was approximately 1,500,000 dollars. Additional assets were extended to the provinces (e.g. the Common School Fund) that while perhaps less important in terms of their total dollar value, were no less controversial as to their disposition.²⁴

Given the large asset base of Ontario in 1867 as well as the potential for greater revenue arising from its more advanced economic development, most Quebec treasurers insisted that any financial comparisons with their neighbour province were unjust. Still, such comparisons were made frequently and Ontario treasurers were able to generate a great deal of political capital from them. One might suggest that such fiscal competition was an inevitable outcome of the rivalry which developed between the two provinces prior to the Confederation period. George Brown noted that these contests pertained largely to local matters which stirred up sectional jealousies and deep indignation.

Despite George Brown's oft-stated desire to free Upper Canada from the fiscal excesses of Lower Canada, he recognized that the source of difficulty was to a great extent the result of

²⁴ Ibid., pp. 16-17. For more information on the evolution of these assets see Chapter 7.

some local governments being far more expensive than others. He noted that large land masses with sparse populations, a situation more akin to Quebec, necessarily required more money per capita for local government than regions which were more densely populated. Brown was a great advocate of the local expenditures of local governments being assumed through direct taxation and he believed that many would have accepted such an arrangement were such mode of taxation not so unpopular in Quebec.²⁵

It was difficult to estimate the economic and political importance of certain revenues accorded to the provinces under the Confederation agreements. In certain instances, the level of economic and political development of a given area may have resulted in a particular source of income being more compatible with urban and industrial conditions. This was true for the revenue from Crown lands and the potential income from direct taxation. Accumulated wealth via natural resources in the case of Crown lands and business profits or successions in the case of direct taxes were the target of provincial governments. The importance of these sources of revenue was frequently linked to the degree of urban and industrial progress of the province. The fiscal situation of the provinces was also an important factor in determining the extent to which the government would attempt if possible, to

²⁵ Waite, op. cit., p. 65.

develop certain revenues. Eventually, a relationship was perceived to exist between Crown lands and direct taxation whereby one source might serve to partially offset the other. The architects of Confederation were aware that direct taxation was considerably less popular than resource extraction as a source of income.

During the pre-Confederation period the earnings derived from Crown lands assumed an important role in contributing to the overall financial performance of the Provinces of Canada. The removal of the imperial preference on timber in 1846, and the subsequent reduction of the importance of the overseas market, led to severe economic dislocation in the provinces' largest industry. Without the revenues from the timber trade, which generally converted natural wealth into private and social capital, problems were often encountered in the administration of public finance.

Prior to 1867, differences in the annual earnings from Crown lands between Upper and Lower Canada were negligible.

TABLE 2-2
Annual income from Crown lands
in Upper Canada and Lower Canada, 1857-1866

	Upper Canada	Lower Canada
1857	135,300	120,800
1858	111,700	111,000
1859	140,400	142,000
1860	176,500	169,000
1861	156,200	154,100
1862	143,400	136,800
1863	170,200	157,500
1864	188,200	155,800
1865	146,000	151,000
1866	203,000	166,000

SOURCE: "Report of the Commissioner of Crown lands for the year ending 1870", in Ontario Sessional Papers, 34 Vict., 1871, (no. 11), p. 10.

But this situation changed dramatically as Crown land revenue emerged as a critical source of annual income in the provinces after 1867. Not surprisingly, therefore, the sale of this lucrative and precious resource did not take place without generating some political controversy.

In his exhaustive study of resource development in Ontario, H.V. Nelles argues that one of the main forces underlying the bias of Ontario's natural resource policy was the fiscal need of the province, particularly before 1900. Influenced by the work of the staple theorists, Nelles maintains that Ontario provincial governments eventually grew accustomed to resource extraction as a means of supporting schools, roads, public works and social services. According to Nelles, timber "sell-offs" were justified in order to avert the imposition of certain unpopular forms of taxation. Nelles points out that

on one occasion, the editor of the *Toronto Globe* cautioned an Ontario Premier not to press the idea of abandoning timber dues. Such a step, it was concluded, would result in "...the imposition of direct taxation and the whole country, except the lumbermen would rise in arms against us."²⁶

A somewhat different interpretation of the role of natural resources in the evolution of Ontario public finance is offered by Robin Neill who notes that: "there were no explicit statements in the legislature indicating that the province intended to build an economy based on raw and processed revenue exports." Neill believes that what accounts for the reliance on primary products for revenue was a lag in the adjustment of the tax system which led to a temporary overburdening of resources to pay for services related to the growth of manufacturing and urbanization.²⁷

In the case of Quebec, many historians have noted that throughout much of the nineteenth century Crown lands were sold by the provincial government for nominal sums. It is generally contended that the sales were made without

²⁶ Nelles, "The Politics of Development", op. cit., p. 46.

²⁷ Robin Neill, "The Politics and Economics of Development in Ontario", Ontario History, Volume 70, no. 4, December 1978, p. 284.

consideration for future needs.²⁸ Nonetheless, the intense debate which took place in Ontario over the role of Crown land revenues in the total provincial income did not occur to the same extent in Quebec. In part, this is attributable to the lesser dominance in Quebec as opposed to Ontario of Crown land revenues relative to other sources of income. Yet, another important consideration in minimizing the debate was Quebec's inability, due to its financial situation, to consider either abandoning or severely diminishing its revenues from Crown lands.

In the decades following the enactment of Confederation, George Brown's surprisingly generous interpretation of the source of Quebec's potential fiscal dilemma as resulting from geographic considerations, gave way to a clear assigning of blame by Ontario politicians to their Quebec counterparts. The root of Quebec's problem was perceived by many Ontarians to stem from financial mismanagement by provincial administrators. In 1880, Ontario treasurer S.C. Wood reinforced a prevailing view that the Quebec government was very much responsible for its financial calamity. Wood argued that:

...the state of affairs in the Lower Province has come about not by accident but by design. I do not mean by that to charge the leading men in the Province of Quebec with looking forward 7, 8 or 10 years allowing this debt to accumulate with the

²⁸ Hamelin, "Les Premières Années...", op. cit.

belief that when it became too heavy they would go to the Dominion Government and demand better terms, but I do say that they knowingly went behind year after year taking it as a matter of course.²⁹

The hope expressed by some politicians that large provincial revenues would confront relatively insignificant expenditures rapidly waned as economic and social conditions evolved. Under the Confederation arrangement, provincial revenues were not intended to support a broad vision of the state and at the outset provincial administrators seemed reluctant to submit to subordinate economic and political status. In Quebec's inaugural budget speech, treasurer Christopher Dunkin warned that "we must be on guard against all attempts as representing the provinces of small importance."³⁰ Only to very limited degree did government expansion and the growth of revenues follow the expectations set out at the time of Confederation. Perry contends that:

...the original financial arrangements of Confederation of which the subsidies from the Dominion to the provinces were the central arch worked reasonably well for only about three decades and then only with a considerable amount of patching and mending. It was apparent by the opening of the twentieth century that the role of the provinces was to be much larger than originally planned..."³¹

²⁹ Financial Statement of the Honourable S.C. Wood, Treasurer of the Province of Ontario, delivered in the Legislative Assembly of Ontario, 29th January, 1880, p. 17.

³⁰ Financial Statement of the Honourable Christopher Dunkin, Treasurer of the Province of Quebec, submitted 14th February, 1868, printed by Quebec Morning Chronicle, p. 5.

³¹ J. Harvey Perry, op. cit., p. 5.

Two additional factors served to upset any balance that may have existed between federal and provincial expectations around fiscal matters. Fluctuations in the business cycle, in particular the long economic recession which began in 1873, had a significant impact on both revenues and expenditures. When Confederation was enacted, the economic cycle was far more stable and consequently, there was a greater sense of optimism. As Paul-André Linteau remarks, "the dissatisfaction of the provinces at the meagre resources accorded them by the agreement reached in 1867, was exacerbated by the unfavourable situation that prevailed between 1873 and 1896".³² But perhaps the most serious factor which upset the financial evolution of the Federation was Quebec's return to large railway spending whereby the province accumulated significant debt and was forced to find new ways to generate income.

In his overview of the Quebec economic history, Robert Armstrong observes that from a fiscal standpoint, provincial government activity expanded at a faster rate than that of the federal government.³³ To a certain degree, this reflected the aspirations of provincial politicians. In effect, the 1867 Constitution created a certain inequity between the responsibilities designated to the provinces and the means with which they were provided to support them. Ian Drummond

³² Linteau et al., op. cit., p. 257.

³³ Robert Armstrong, op. cit., p. 283.

believes that the Fathers of Confederation envisaged limited functions for the provinces which were to be confined primarily to basic government services (administration of justice, legislation and civil government). But from the outset, Drummond contends the government of Ontario also had "larger visions". Moreover, he concludes, the provincial authorities inherited larger than anticipated responsibilities specifically in the important sectors of agriculture and education.³⁴

Paul-André Linteau believes that the large size and diversity of the new Dominion of Canada made it essential to develop a less centralized form of federalism.³⁵ The hope of the Fathers of Confederation that Canada would be a more centralized state was thwarted by events between 1867 and 1896 whereby the Constitution veered towards greater provincial autonomy. Linteau et al. conclude that:

The same constitution was in effect in 1896 as in 1867, but the interpretation that had been given to it had substantially changed the balance between the federal government and the provinces... at the time of the first interprovincial conference in 1887, they [the provinces] succeeded in gaining a degree of autonomy that was inherent in the logic of the federal system.³⁶

Whereas the desired degree of autonomy inherent in the mid-

³⁴ Drummond, op. cit., p. 341.

³⁵ Linteau et al., op. cit., p. 257.

³⁶ Ibid, p. 260.

nineteenth century Canadian federal system is not clear, the Fathers of Confederation were challenged by the need to reconcile their aspirations for a strong central government while satisfying the provinces' penchant for autonomy. It was important for the 1867 Constitution to address, insofar as possible, the affects of such an ambiguity.

While the financial situation varied significantly between Quebec and Ontario in the decades following 1867, a consensus was arrived at by provincial politicians regarding the inadequacy of the fiscal resources provided to the provinces to meet their growing commitments. The responsibilities assigned to the provinces eventually called for a larger share of either taxable or other forms of wealth to accrue to Quebec and Ontario. At the turn of the century, during an inter-provincial conference, Ontario Premier James Whitney arrived at the following conclusion:

Without waiting to discuss whether at the time of the Union, the provision made for the Provinces was not generous (having regard to available revenue and wealth of the country) is it quite clear that this provision was made without adequately anticipating the growth of population and the urgent demands which modern conditions imposed upon the Provinces ... The small household with its moderate wants on the basis of 1861 is very different from the larger household of 1901 with its many wants As a consequence of the increase of the population, the provinces in their respective spheres of action, are called upon to make provision for larger expenses, "viz." the Administration of Justice, Public instruction, etc., etc. and this without any increase of

revenue, worthy of notice.³⁷

The fiscal projections regarding the provinces' financial position made by several of the architects of Confederation were not reflected in the outcome over the first three decades. While it would be inaccurate to attribute the potential miscalculation solely to the Federation arrangements, certainly some responsibility lies therein. A.W. Boos suggests that the Fathers of Confederation may not have foreseen the numerous and burdensome demands that future developments would make on the provincial treasurers. He believes that the Fathers of Confederation unknowingly made inadequate provision for future provincial requirements and likely believed that the provinces would obtain additional revenues particularly from direct taxation. Despite Boos' contention, it is equally clear that the central government wished to place a certain control on provincial spending and that unpopularity of direct taxation was definitely acknowledged by the Fathers of Confederation.³⁸ Still, the large expenditures made by the Quebec government following Confederation constituted an important factor which upset the equation that the federal leadership wished to achieve. While

³⁷ "Proceedings of the Interprovincial Conference held at the City of Quebec from the 18th to the 20th December, 1902", printed by order of the Legislative Assembly of Ontario in Ontario Sessional Papers, no. 4., Volume xxxv., 1903, p. 11.

³⁸ Boos, op. cit., p. 14.

Ontario administrators were better prepared financially than Quebec to operate within the bounds set out for the provinces, they eventually needed to expand their financial resources to maintain their political credibility with the population. As the provinces' financial circumstances called for change to the fiscal status quo, modifications would be made through either "patching or mending" to the federal system, or through important fiscal initiatives launched by Quebec and Ontario themselves. Rather than seeking major adjustments to the constitutional arrangements during the nineteenth century, the provincial governments tested the latitude of the existing fiscal resources at their disposal (for example the political limitations on the implementation of direct taxation). In the next chapter, we will see how the provinces expanded their revenues following 1867 given the constraints imposed by the Confederation agreement.

CHAPTER 3

REVENUES: 1867-1896

A. General Overview

As we pointed out in the first chapter, most studies of the behaviour of the state in Ontario and Quebec have confined their attention to the analysis of the expenditure patterns of the respective provinces. Clearly, the provinces were expected to accomplish much according to provincial treasurers who generally regarded their sources of revenue as too limited. In the early years of the Federation, it seemed vital for treasurers to ensure that annual income kept pace with expenditure. Prior to the enactment of Confederation such a fiscal balance was rarely attained. The year 1867 promised a relatively fresh start whereby Ontario and Quebec might correct their situation under new circumstances primarily by taking into account their past financial experience. From the outset, however, the province of Ontario gained a significant financial advantage over its eastern neighbour in terms of the total income which it collected. As we shall see, this initial achievement was not without repercussions for the longer term fiscal evolution of the two provinces.

During the first three decades of the Federation, the province of Ontario collected nearly 92,000,000 dollars from ordinary annual income, while the province of Quebec amassed approximately 85,000,000 dollars over the same period. This gap in total earnings resulted almost entirely from the difference in income between the two provinces which emerged

during the first decade of Confederation. Indeed, when looking at decennial revenues on a per capita basis, from 1877 to 1896, the Quebec government collected considerably more per person, per year, from ordinary operations than did the province of Ontario.

TABLE NO. 3-1
Total ordinary and per capita revenues
Quebec and Ontario (approximate figures), 1867-1896

	ONTARIO (p.c.)	QUEBEC (p.c.)	DIFFERENCE OF (p.c.)
1867-1876 (10 years) per annum	27,400,000 (\$1.70)	18,500,000 (\$1.55)	8,900,000 (Ont.) (\$0.15)
1877-1886 (10 years)	26,800,000 (\$1.40)	27,500,000 (\$2.07)	700,000 (Que.) (\$0.67)
1887-1896 (10 years)	37,500,000 (\$1.75)	38,800,000 (\$2.60)	1,300,000 (Que.) (\$0.85)
TOTAL	91,700,000	84,800,000	6,900,000 (Ont.)

SOURCE: For Province of Ontario revenues, see "Report of the Royal Commission on the Financial Position of the Province of Ontario", in Ontario Sessional Papers, Volume XXXIII, p. 1901, No. 50, p. 6. and for Quebec revenues, see "Detailed Statement of the Receipts of the Province of Quebec from 1867 to 1893", Quebec Sessional Papers, 57 Vict., Statement A, no. 3 and Budget Speech of the Honourable A.W. Atwater, Treasurer of the Province, in the Legislative Assembly of Quebec, 9th December, 1896, p. 39.

From 1867 to 1896, there were in general four principal sources of revenue accounting for anywhere from 75 to 90 percent of either provinces total ordinary income. Dominion subsidies, Crown land revenues and license fees were common to both provinces during that period. Apart from this, between

1867 and 1886, Ontario benefitted from the annual interest on its assets and investments. For Quebec the proceeds from direct taxes would assume a prominent place within the province's overall budget during the final decade of the nineteenth century.

An analysis of the evolution of the main revenues in Ontario reveals that with the exception of a decline in the percentage of Crown land earnings as a proportion of total income there were few modifications to the province's finances during the first two decades of the Federation. The important change to Ontario's finances occurred during the period 1887 to 1896 at which time the province experienced a significant rise in its overall income. The considerable increase in Crown land earnings accounted primarily for the upswing in total revenues which took place in the final decade of the nineteenth century. As the sum obtained from Crown lands rose sharply, so too did its share of the overall budget which increased from approximately 25% of total income between 1877 to 1886 to 35% during the period 1887 to 1896. Crown land earnings permanently surpassed the fixed sum obtained from the Dominion subsidy toward the close of the century.

For the province of Quebec, the Dominion subsidy remained the largest source of income from Confederation to the close of the century. Nonetheless, its importance as a percentage of

overall income declined from over 50% of Quebec's annual average income in 1867, to approximately 25% of total revenues by the 1890's. The emergence of direct taxes, beginning in the late 1880's, further contributed to the decrease in the share of overall income represented by the Dominion subsidy.

New sources of revenue accompanied by increases in traditional sources, e.g. license fees, enabled the province of Quebec to acquire similar total income to that of Ontario during the last two decades of the nineteenth century despite the latter province's greater population. Although Quebec collected far more revenue per capita than its neighbour, we shall see in subsequent chapters that its per capita expenditure and debt were significantly higher than that of its Ontario counterpart. The principal sources of revenue in Quebec and Ontario are shown below:

TABLE NO. 3-2
Principal Sources of Revenue as a Percentage of Total Income
on a Decennial Basis, Quebec and Ontario 1867-1896
(rounded figures)

Quebec

Total Income	Dominion Subsidy	Crown Lands	Licenses and Law Stamps	Direct Taxes
1867-1876 18,500,000	9,500,000 (52%)	5,100,000 (27%)	2,600,000 (14%)	
1877-1886 27,500,000	10,100,000 (36%)	6,200,000 (22.5%)	5,900,000 (21%)	
1887-1896 38,000,000	10,100,000 (26%)	8,600,000 (23%)	7,200,000 (19%)	4,000,000 (11%)

Ontario

Total Income	Dominion Subsidy	Crown Lands	Licenses	Interest on Assets & Investments & Municipal Loan Fund
1867-1876				
27,400,000	11,000,000 (40%)	7,800,000 (30%)	650,000 (1.5%)	4,500,000 (20%)
1877-1886				
28,800,000	12,000,000 (40%)	7,200,000 (25%)	1,200,000 (3%)	2,750,000 (10%)
1887-1896				
37,500,000	12,000,000 (32%)	13,200,000 (35%)	2,500,000 (4%)	2,000,000 (6%)

SOURCES: Quebec: "Detailed Statement of the Receipts...", Quebec Sessional Papers, 57 Vict. and Budget Speech of A.W. Atwater, 9th December, 1896, and Ontario: Financial Statement of the Honourable A.M. Ross, Treasurer of the Province in the Legislative Assembly of Ontario, February 13, 1890, pp. 36-47, and Financial Statement of the Honourable H.R. Harcourt, Treasurer of the Province, in the Legislative Assembly of Ontario.

B. Dominion Subsidy

Over the period 1867-1896, the combined income from the Dominion subsidy and grant was generally the most important source of revenue in the provinces of Quebec and Ontario. Intended to be the largest and most stable source of funds, this fixed annual allocation was designed to cover the costs of the provinces' basic government services. In the first place, a per capita grant was to be made to Quebec and Ontario on the basis of eighty cents per head of the population, as determined by the census of 1861. In addition, a specific amount was to be granted annually (in the case of Ontario, 80,000 dollars and for Quebec, 70,000 dollars). Based on

their respective populations in the year 1861, Ontario received a total of nearly 1,200,000 dollars, while Quebec obtained slightly over 1,000,000 dollars from the Dominion subsidy and grant.¹

During the first three decades of the Federation, save where exceptional income was obtained from Crown lands, the Dominion subsidy and grant was indeed the largest annual source of revenue. This, however, did not imply that the provinces were satisfied with the conditions of the subsidy, given that the financial terms were intended to be non-negotiable. In the language of the British North America Act: "In consideration of the transfer to the general Parliament of the powers of taxation, an annual grant in aid of each province shall be made Such aid shall be in full settlement of all future demands upon the general government for local purposes . . ."²

While the allocation from the Dominion subsidy decreased as a percentage of overall income, the greater decline was in the

¹ The populations of Ontario and Quebec in 1861 were 1,396,091 and 1,111,566 respectively. From the 1880's on, Quebec administrators argued that the annual per capita subsidy should be calculated according to the population of the provinces ascertained by the preceding decennial census (see Chapter 8).

² "Extract from the Resolutions Adopted at Quebec in October 1864, at a Conference of Delegates from Upper and Lower Canada, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland" in Adam Shortt and Arthur B. Dougherty eds. Canada and its Provinces, Toronto: Glasgow, Brook and Company, Volume VII, 1914-1917, pp. 507-508.

per capita value of the fixed subsidy with the constant increase in population from 1867. This decrease is illustrated below:

TABLE NO. 3-3
Evolution of the per capita value of the Dominion subsidy to the provinces of Quebec and Ontario, 1867-1901

	ONTARIO RECEIVED 1,116,872		QUEBEC RECEIVED 889,252	
	population	p.c.	population	p.c.
1861	1,396,091	80	1,111,566	80
1871	1,620,851	70	1,191,516	75
1881	1,926,922	60	1,359,025	65
1891	2,144,321	52	1,488,535	60
1901	2,182,957	51	1,648,898	54

SOURCE: Lomer Gouin, "Question Actuelle...", *op. cit.*, p. 77.

During the pre-Confederation debates, Alexander Galt explained that the subsidy would cover expenditure associated with basic government services. But as the cost of such services rose both in actual dollars and on a per capita basis, there was a perception that the subsidy was insufficient.

In spite of the clear indication that the subsidy was final, during the late nineteenth century the provinces and in particular Quebec, made efforts to renegotiate the allocation. On at least two occasions, during the early 1880's and at the close of the nineteenth century, the government of Quebec formally insisted upon an adjustment to the subsidy. The case made by Quebec was based primarily upon what several

administrators referred to as the changed demographic and financial circumstances in which the province found itself. Provincial treasurers argued that as the population of the province rose, the requisite increase to expenditures, including the cost of basic government services, was no longer satisfied by the fixed subsidy. As a result of this evolution, in 1883, Quebec treasurer J.G. Wurtele remarked that his province could "in all justice and according to the spirit of the covenant upon which the Confederation is based, ask that their annual subsidy be increased."³

It is clear that Quebec's desire to obtain some fiscal revision was not merely confined to the need for reconciling the subsidy to the growth of population. The government was very much motivated by the larger financial dilemma which it faced during the 1880's arising from its substantial debt burden. At that time, Quebec treasurers were looking into ways of generating greater revenue and the Dominion subsidy appeared to be one of the major targets. It is to a significant extent in the latter context that Quebec's negotiations with the federal authorities are best understood.

The case for an increase to the subsidy was carefully intertwined with support for the cause of provincial rights.

³ Budget Speech by the Honourable J.G. Wurtele, Treasurer of the Province of Quebec, delivered in the Legislative Assembly of Quebec, 14th February, 1883, p. 48.

In his 1903 publication Question Actuelle: Le Remaniement des Subsidés Fédéraux en Faveur des Provinces, the future Quebec Premier Lomer Gouin argued that:

Je sais que, pour la presse hostile aux droits des provinces et pour plusieurs qui ne connaissent pas la question, l'enjeu de la lutte pacifique que nous venons d'engager est de peu d'importance. Ceux-là ne voient dans nos démarches que l'effort de gouvernements intéressés à se concilier la faveur populaire par des largesses ... il me semble, si après avoir rappelé le but de la constitution de 1867 et les raisons du partage financier qu'elle établit, je démontre que ses auteurs se sont trompés dans leurs prévisions et qu'il est aujourd'hui en notre pouvoir de réparer leur erreur.⁴

As a result of its larger population, the province of Ontario collected nearly 200,000 dollars more per year than Quebec from the Dominion subsidy. The higher per capita cost of basic government services in Quebec was not a factor in determining the federal allocation and few outside Quebec would accept an adjustment to the subsidy on the basis of that province's debt burden. The Ontario administration was satisfied with the financial arrangements and was inclined throughout the nineteenth century to resist further attempts at what it considered fiscal equalization beyond that which already existed under the BNA Act. Historian Christopher Armstrong has pointed out that when other provinces clamoured for "better terms" or more money from the federal Treasury, Ontario usually held itself aloof. Armstrong suggests that

⁴ Gouin, see "Avant-Propos" of "Question Actuelle...", op. cit., p. 5.

Ontario Premier Mowat and his successors could "afford to stay home when other Premiers went cap-in-hand to Ottawa ...to resist changes in the financial relations between the federal and provincial governments which did not meet with Ontario's approval."⁵

Throughout the early 1880's the province of Quebec pressed its case for a revision to the Dominion subsidy. All such proposals were flatly refused by the federal authorities. Supporters of the stand taken by Conservative Prime Minister John A. Macdonald expressed the view that it was necessary for Quebec to resolve its financial dilemma without making what would constitute a dramatic change to the federal-provincial relationship.

Over the first three decades of the Federation, the province of Ontario collected nearly 6,000,000 dollars more than Quebec from the Dominion subsidy and grant. While this gap was a logical outcome of the formula agreed upon under the Confederation arrangements, this difference in income figured prominently as a result of Quebec's higher cost than Ontario for basic government services to which the subsidy had originally been directed. Despite all efforts to obtain increases to the Dominion subsidy, not until the early

⁵ Christopher Armstrong, The Politics of Federalism: Ontario's Relationship with the Federal Government, 1867-1942, Toronto: University of Toronto Press, 1981, p. 28.

twentieth century was a revision actually made. For those who argued that this hike was essential to cover increased expenditures, they were encouraged to examine other possible sources of revenue.⁶

C. Crown Lands

In the first few decades of the Federation, provincial treasurers frequently looked upon Crown land earnings as the revenue which determined the degree of disposable income they would be left with in a given fiscal year. The yearly surplus or deficit often seemed conditioned on the annual sum generated from this source. Unlike the rather stable Dominion subsidy, income derived from Crown lands was subject to great fluctuations. Shifts in this vital source of funds were caused by the international demand for timber during any given period, the quality of the wood and its proximity to market. As a consequence of this dependence on market conditions, some politicians argued that Crown lands income was largely beyond the control of the provincial administrators.

Despite the contention that control over Crown land revenue was limited, provincial administrators certainly possessed the ability to affect the annual collection from this source. Aside from their power to raise tariffs and/or dues on the

⁶ See Chapter 8 for the greater details of the federal-provincial dispute over the Dominion subsidy.

production of timber, perhaps the most important method through which to manipulate this income was by determining the quantity and quality of timber tracts auctioned or privately sold on an annual basis. The decision to sell a particular quantity of Crown lands was primarily influenced by the short term revenue needs of the province, the prevailing business cycle and political/partisan considerations. While it is difficult to assess the weight of each of these factors, certain conclusions can be obtained by analyzing the fluctuations in this income in the provinces of Quebec and Ontario.

A number of contemporary observers have criticized the province's policy of resource extraction which they maintain sacrificed long term interests in an effort to satisfy short term financial and political concerns. As noted in the last chapter, historians particularly influenced by the staple theory, have charged the post-Confederation provincial administrations with mismanagement of a precious resource.⁷ It is imperative, however, to understand the provinces handling of Crown lands in the context of the respective governments limited sources of revenue within the 1867 arrangement.

When examining the overall income from Crown lands during the

⁷ Nelles, op. cit.

first three decades of the Federation it is evident that the province of Ontario was able to collect a substantially greater sum than Quebec from this source. Recognizing the considerable importance of Crown land revenues to the total budget during this period, it is clear that Ontario's vastly superior earnings from this source contributed more than anything else to the overall income disparity with Quebec which emerged by the end of the century. The difference in Crown land income is particularly apparent in the first decade of the Federation as well as during those years near to the close of the century. It would appear that only at the time of economic recession was Quebec able to rival the earnings of its neighbour and surpass Ontario on a per capita basis. In the latter situation, it might be argued that Ontario was wise to limit its sales of timber under the more difficult economic circumstances.

TABLE NO. 3-4
Comparison of total and per capita revenues from
the sale of Crown lands in Quebec and Ontario, 1867-1896

	1867-76	1877-1886	1887-1896	TOTAL
Ontario (p.c.)	7,800,000 (\$4.80)	7,200,000 (\$3.75)	13,200,000 (\$6.07)	= 28,200,000
Quebec (p.c.)	5,100,000 (\$4.28)	6,200,000 (\$4.56)	8,600,000 (\$5.78)	= 19,900,000
Difference of	2,700,000	1,000,000	4,600,000	= 8,200,000
SOURCE:	Ontario: "Report of the Royal Commission on the Financial Position...", <u>op. cit.</u> , and Quebec: "Detail Statement of the Receipts..." <u>op. cit.</u> and Budget Speech, 9th December, 1896.			

As noted, the gap in the provinces total revenues from Crown lands became evident shortly after the enactment of the Federation. Indeed, to be precise, the year's 1869 to 1874 were noteworthy in this regard as they helped Ontario to quickly secure a degree of overall financial superiority relative to Quebec. As noted in Chapter 2, prior to 1867, differences in the annual earnings from Crown lands between Upper and Lower Canada were negligible.

The early years of the Federation gave rise to a substantial upswing in total income generated from this source. Annual collections attained heights that were previously unimaginable. A sharp increase in the international demand for lumber prompted the dramatic rise in earnings. In the case of Ontario during the years 1872 and 1873 its annual income from Crown lands actually surpassed the annual sum provided by the Dominion subsidy, something that few observers would have anticipated. From 1869-74, the province of Ontario collected nearly 2,500,000 dollars more than Quebec from revenue generated by this source.

In their respective studies on the economic and political histories of Ontario and Quebec, H.V. Nelles and Marcel Hamelin argue that when provincial treasurers required additional income to meet a pending fiscal obligation, the Commissioner of Crown lands simply sold off large timber

tracts. Nelles, adds that persistent pressure existed for such sales since as one Ontario politician remarked the government "wanted the money".⁸ It may be necessary to distinguish between the "want" and need of funds although both are generally common and perfectly legitimate fiscal objectives. It is important to note that from 1867 to 1873 there is little evidence that Ontario administrators desperately required funds to meet any urgent commitment. In the early years, it is likely that provincial administrators were caught up in the euphoria brought on by the extremely favourable conditions in the lumber market. Reflecting upon the substantial revenues which had accrued from timber sales, in 1873, the Ontario Commissioner of Crown Lands concluded that:

the flourishing condition of the lumber market unprecedented in former years, and probably not to be equalled for some years to come, seemed also to indicate the time for such action as opportune, and to warrant the expectation so fully realized that the result in the interest of the province would be satisfactory.⁹

When contrasting Quebec's Crown land earnings with those of its neighbour province between 1869 and 1873, there has been a tendency on the part of some analysts to assume that the former province was not conducting its affairs in an orderly way. In his study of the Quebec provincial government in the

⁸ Ibid, p. 18.

⁹ "Report of the Commissioner of Crown Lands" in Ontario Sessional Papers, 36 Victoria, A. 1873 SP, no. 14, pp. V-XI.

first ten years after Confederation, historian Marcel Hamelin states that:

Une étude de l'administration des terres de la Couronne entre 1867 et 1878 ne peut que démontrer l'incompétence et l'imprévoyance des administrateurs provinciaux. Particulièrement entre 1870 et 1873, le gouvernement se départit, en retour de sommes ridicules, de forêts immenses et très riches.¹⁰

Hamelin's conclusions are largely based upon charges made against the Quebec government in the early 1870's by the then leader of the Liberal opposition, H.G. Joly. The opposition leader strongly protested the government's disposal of timber limits by private sale, a system which was also employed by the Federal government, rather than by public auction, the method employed by the Ontario administration. Joly concluded that this practice accounted for the substantial difference in Crown land income between the two provinces. Although the system of private sales was abandoned in 1872, Joly estimated that it had cost Quebec approximately 1,000,000 dollars in revenue. The opposition Liberals pointed out that:

... la moyenne des primes (the bonus) payées par les marchands de bois s'établit, en 1872, aux environs de \$8 le mille alors que l'Ontario, ou les ventes se font toutes aux enchères publiques a obtenu des primes moyennes de \$113.¹¹

The Quebec government frequently defended its approach to the sale of the province's Crown domain and the consequent financial outcome. Like a number of Quebec treasurers, the

¹⁰ Marcel Hamelin, op. cit., p. 189.

¹¹ Ibid, p. 186

province's Commissioner of Crown Lands insisted that comparisons with Ontario were unfair. Commissioner J.O. Beaubien maintained that it was essential to assess the quality of the timber limits that were sold by the province. He claimed that the territory which was generally sold by the Quebec administration was not ideally suited for lumbering operations. Given the relative distances that separated timber tracts from commercial centres, it would be easy to show that Quebec's were three to four times further from their market than tracts reaping the largest bonuses. Beaubien argued that the greatest part of Quebec's Crown land domain consisted of tracts with relatively poorer access to the market compared with that in Ontario. He also noted that Ontario possessed a far superior transportation infrastructure.

He stressed that in Quebec many of the best timber tracts had been ceded years earlier and that they had been purchased on easy conditions. Also, many of the better tracts were obtained by railway companies as bonuses for the successful completion of their work.¹² Beaubien concluded that:

The territory suited for lumbering operations transferred to the province of Quebec in 1867, was generally, far from offering advantages similar to that previously granted: its consisted of two

¹² Report of the Commissioner of Crown Lands of the Province of Quebec, for the twelve months ended 30th June, 1872 in Quebec Sessional Papers, 36 Victoria, A. 1873, p. XV. See also Chapter 5.

distinct classes of lands: - the one situated...at comparatively long distances, the other hemmed in at the limits them being actually worked. The region comprised in the first class, because of its position...had always been considered by the explorers as valueless on account of its inaccessibility...¹³

Despite the perception that the Quebec government was selling off its most valuable timber limits, in the mid-1870's, the Crown Land Department reported that more than over 80% of the province's 120,000 acres of land was not conceded and belonged to the Crown. While approximately 30,000 acres were under license for the cutting of timber, nearly 70,000 acres were at the disposition of the Government and were said to comprise valuable timber tracts. Given this report, in 1875 the Quebec treasurer concluded that:

...when the proper time comes, the Government will offer them to public competition, when a still further increase of revenue will be secured. It is difficult to estimate the value of our timber lands. There is no reason in the world, if they are carefully looked after, if the waste of timber heretofore too common... why the revenue from this source may not continue for centuries.¹⁴

Over the two years that Ontario produced an unusually large revenue from Crown lands (1,400,000 dollars in 1872 and 1,100,000 in 1873) nearly half of the earnings were generated by the sale of timber tracts on the North Shore of Lake Huron. In that region, there were apparently numerous potential

¹³ Ibid.

¹⁴ Speech on the Budget by the Honourable J.G. Robertson, Treasurer of the Province of Quebec, delivered in the Legislative Assembly of Quebec, 16th June, 1880, p. 40.

buyers willing to pay prices that reflected the buoyancy of the market. It should also be pointed out that the sale of 1872 covered an enormous area. Reflecting upon the sale of 1872, some 35 years later, the Ontario Deputy Minister of Lands and Forests noted that: "... it was evidently in advance of the necessities of the time, as an enormous quantity of pine timber is still standing on the territory then sold, after 36 years cutting."¹⁵ A comprehensive study of the two provinces' economic geography as it pertains to the Crown land domain would be necessary to fully support Marcel Hamelin's contentions about the Quebec administration's severe mismanagement in this sector. It remains clear however that the practice of private sector was abandoned by the Quebec government in the 1870's.

Beginning near the mid-1870's a severe depression struck the lumber trade which had a profound negative impact on Crown land earnings for about fifteen years save the exceptional years of 1881 and 1882. In his annual report of 1873, the Ontario Commissioner of Crown Lands expressed concerns regarding the overproduction of lumber and the accumulation of substantial reserves of timber. In subsequent years Crown Land Commissioners often referred to continued stagnation resulting from overstocks of lumber in the American and

¹⁵ Aubrey White, "The Forest Resources of Ontario", Report of the Department of Lands and Forests in Ontario Sessional Papers, Appendix no. 46, 1909, p. 131.

Canadian markets contributing to supplies being far in excess of any prospective requirement for some time to come.

Despite the hope for some partial improvement in the state of the trade, the decline continued through 1875 to the point where new sales of timber tracts were rare and collections on past debts frequently proved difficult. By year end, the editor of the Toronto Daily Mail criticized the Ontario treasurer for setting the annual estimate for Crown land income on the basis of the mean average of yearly revenue over the eight previous years. He noted that from 1868 to 1871 the timber trade was flourishing, but that in 1872 and 1873, an abnormal revenue was collected as a result of an extraordinary sale in the Huron district. The year 1874 was the last of the "well favoured", according to the editor, who correctly observed that 1875 seemed to be the start of what could be a "long period of depression in the trade."¹⁶

Given the weaker demand for lumber toward the end of the 1870's, Ontario Crown Land Commissioners urged that the best policy would seem to be "a curtailment of operations until a strong, healthy demand for the produce of our saw-mills has

¹⁶ Toronto Daily Mail, December 4, 1875, p. 4.

been established."¹⁷ In the early years of the 1880's, there was a marked revival in the lumber business and renewed optimism that Crown land earnings would again return to former heights. The result, an Ontario Commissioner hoped would be "a steady and continuous market and profitable returns being preferable to inflated values such as obtained in 1872 and previous years."¹⁸

Aside from the exceptionally remunerative years of 1881 and 1882, until the latter half of the decade earnings from Crown lands did not increase markedly over previous years. During the recessionary period, charges were more frequently made that past timber sales resulted in the waste of Ontario's valuable patrimony. In his budget speech of 1884, Ontario treasurer A.M. Ross remarked that a large portion of the resources and revenue from Crown lands and timber were used for the construction of the province's network of railways. Ross asked Ontario legislators whether without the increases in Crown land revenues they deemed it possible that:

... the ordinary receipts of the Government - the Dominion subsidy and our casual revenue - would enable us to carry the ordinary work of government to distribute the moneys we have distributed, or to

¹⁷ "Report of the Commissioner of Crown Lands for the province of Ontario, year ending 1876" in Ontario Sessional Papers, 40 Vict., 1877, p. vii.

¹⁸ "Report of the Commissioner of Crown Lands for the province of Ontario year ending 1879" in Ontario Sessional Papers, 43 Vict., 1880, pp. viii-ix.

give the aid to railways we have given?¹⁹

Unlike the first six years of the Federation, from 1874-1886, while Quebec earned less revenues from Crown lands than Ontario, the difference in income between the two provinces was hardly as significant as it had been in the earlier period. Whereas Ontario had previously earned 500,000 dollars more per year on average than Quebec from the proceeds of Crown lands, over the next twelve years its advantage was less than 100,000 dollars per annum. As a result of Quebec's stronger ties with the European market, which suffered less than America from the generally depressed conditions of the timber trade, it was suggested that the province did not feel the same impact as Ontario in its annual earnings from this source. The province of Quebec appeared able to sustain a consistent level of annual income.

TABLE NO. 3-5
Contrasting Crown land earnings between Ontario and Quebec
on the basis of the economic cycles, 1867-1886
(annual averages)

	ONTARIO	QUEBEC	DIFFERENCE OF
1867-1873	970,000	500,000	470,000
1874-1886	685,000	610,000	75,000

SOURCE: Ontario: "Report of the Royal Commission on the Financial Position of Ontario...", op. cit., and Quebec: "Detailed Statement of the Receipts..." op. cit., and Budget Speech, A.W. Atwater, 9th December, 1896, op. cit.

¹⁹ Budget Speech of the Honourable A.M. Ross, Treasurer of the Province, in the Legislative Assembly of Ontario, 21 February 1884, p. 26.

When one analyzes the reports of the Quebec Commissioner of Crown Lands over the period 1874-1886, it would seem that the major preoccupations were very similar to those of their Ontario counterparts. In the year 1875, the Quebec Commissioner of Crown Lands foresaw that the depressed condition of the timber trade would result in some decrease in the annual revenue. Unlike Ontario, however, which had attained record revenues in the early 1870's, Quebec's Commissioners pointed out that their province's Crown land income would not suffer considerably relative to previous years.

In the latter part of the 1870's, and the beginning of the 1880's, there was recognition by the Quebec administration that of those who were engaged in lumbering operations many were not in a position to meet existing debts. Decreases in the provincial sales of timber lands and the failure of some to meet arrears on old sales contributed to keeping Crown land income at low levels. By 1880, there was a brief revival in the timber trade from which Quebec benefitted substantially. During the years 1881 and 1882, Quebec earned its highest income from Crown lands since the Confederation period. Commissioners expressed hope that such gains would continue for some years.

Owing to the decrease in the value of timber lands during the

recessionary years, according to the reports of the Commissioners, interest on the part of land speculators appeared to diminish. Similar to the recommendations put forth by Ontario Crown Land Commissioners, the Quebec administrators made an effort to adjust their policies accordingly. During the 1870's, therefore the Quebec Commissioner of Crown Lands stated that:

The policy which should be observed is ... to preserve as large an extent as possible of the public lands in forest, without prejudice to the object which should be kept chiefly in view, the settlement of the country.²⁰

In the 1880's, the revenue from Crown lands was consistently influenced by fluctuations in the economic cycle. At that time, shifts from optimistic to pessimistic forecasts were much in evidence on the part of provincial treasurers as well as Commissioners of Crown Lands. A number of timber merchants sensitive to the deterioration of the market responded by reducing their output subsequently causing a decline in the province's income from this source. In his report of 1884, Ontario's Crown Lands Commissioner, T.B. Pardee, noted that:

...the production from Crown Domain in 1883-84 falls short of that of the preceding year, and it is anticipated that the cut of the present winter will be somewhat short of that of the last. The decrease in operations may be taken as indicating that those engaged in lumbering in Ontario are prudently husbanding their timber instead of

²⁰ "Report of the Commissioner of Crown Lands of the Province of Quebec for the twelve months ended 30th June 1875" in Quebec Sessional Papers, 39 Vict., 1876, p. iv.

throwing large productions on a weak market.²¹

In the year 1883, there was a feeling expressed by Quebec administrators that their province was moving into a position whereby it could outperform its neighbour on the total income obtained from the sale of Crown lands. Recognizing that most comparisons involving Quebec were generally disparaging toward the latter province, in 1883, the Commissioner of Crown Lands was encouraged by his province's annual revenues from this source which exceeded that of Ontario by approximately 200,000 dollars. The Commissioner remarked that:

...the transactions of the Province of Ontario...are of a less brilliant character than usual; but it is to be observed, on the other hand, that there was no considerable sale of timber limits made in either Province during the year, to cause an abnormal augmentation of the receipts such as would render it difficult if not impossible to institute a comparison.²²

This renewed sense of optimism quickly waned in 1884 and 1885 when lumbering operations were once again curtailed by what was being referred to as a financial crisis. Following this period, however, income from Crown lands would once again offer very stable returns for the two provinces. At the end of the 1880's, Ontario benefitted from dramatic increases in its income from Crown lands and by the early part of the next

²¹ "Report of the Commissioner of Crown Lands for the Province of Ontario, year ending 1884" in Ontario Sessional Papers, 48 Vict., 1885, p. vi.

²² "Report of the Commissioner of Crown Lands of the Province of Quebec for the Twelve Months Ending 30th June 1883" in Quebec Sessional Papers, 47 Vict., 1884, p. v.

decade, was reporting record revenues from this source. For its part, the record revenues from Crown lands first appeared in Quebec during the early 1890's, and continued until the close of the century. When contrasting the income of the two provinces from Crown lands over the ten year period from 1887 to 1896, Ontario's advantage over its eastern counterpart was very substantial.

TABLE NO. 3-6
Contrasting Crown land income of
Ontario and Quebec for select period (annual average)
 1887-1896

	ONTARIO	QUEBEC	DIFFERENCE OF
ANNUAL AVERAGE	1,320,000	860,000	460,000
TOTAL	13,200,000	8,600,000	4,600,000

SOURCE: Ontario: "Report of the Royal Commission on the Financial Position...", op. cit., and Quebec: "Receipts of the Province of Quebec...", op. cit., and Budget Speech, Quebec, 9th December, 1896, op. cit.

The sizeable increase in earnings from Crown lands from which Ontario benefitted more than Quebec can be traced to a number of factors. Beginning some time in 1886, the great revival of the timber trade was characterized by large increases in the demand for sawn lumber on the part of several countries. Under these conditions, the Ontario government proceeded quickly to raise fees for those merchants engaged in the timber trade. In 1887, the Ontario provincial government imposed a substantial increase on timber dues and ground rents. The major outcome of this hike was to double in the following year the income derived from Crown lands relative to

what was earned in the previous few years. Justifying this increase in dues, the Commissioner of Crown Lands stated that:

...a considerable period having elapsed since the tariff of dues upon timber, etc., was framed, and standing timber having increased in value of late years, it was thought that such an increase in the dues ought to be made as would give the province a share in the increment of value which had taken place.²³

Ontario conducted three very large sale of timber tracts in the years 1887, 1890 and 1892. The last of these sales produced an annual income far in excess of anything previously attained to that point as the province surpassed the 2,000,000 dollar mark in Crown land earnings. In 1893, the treasurer of Ontario remarked that the sale of the previous year proved conclusively that the time selected was most opportune. The treasurer concluded that:

...the demand for lumber at the time was unusually brisk, export duty had been taken off, the import duty was small and large sums of money at low rates of interest were readily available for any promising investment.²⁴

Similar to his Ontario counterpart, early in 1887, the Quebec Commissioner of Crown Lands raised the ground rent on timber limits rather sharply from \$2.00 to \$5.00 per square mile. The Quebec administration maintained that this measure was necessary so that the province could obtain a proper share of

²³ "Report of the Commissioner of Crown Lands for the Province of Ontario year ending 1887" in Ontario Sessional Papers, 44 Vict., 1881, p. vii.

²⁴ Budget Speech of the Honourable H.R. Harcourt, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, 11th April, 1893, p.6.

the profits from Crown lands. Confidence was expressed by Quebec officials that the public would approve this increase. But considerable pressure was quickly exerted upon the Quebec government to reduce the rate and within a matter of months it was indeed lowered to \$3.00 per square mile, the rate charged for such rents by the province of Ontario. Nonetheless, the remaining increase helped Quebec to surpass the million dollar mark in annual earnings from Crown lands during the year 1889.²⁵

As the Crown land revenues rose sharply in both provinces during the 1890's, several observers argued that timber merchants should be compelled to manufacture their lumber in Canada. In the year 1893, the treasurer of Ontario said that such restrictions were unnecessary since the bulk of the province's lumber was in the hands of Canadian manufacturers. By the year 1897, the Ontario Legislature implemented a "manufacturing condition" requiring that all timber cut on Crown lands should be processed in Canada. Concerned about a threat to its overall income from Crown lands, insofar as Quebec did not establish a manufacturing condition, Ontario put a series of measures into place at the beginning of the twentieth century which favoured manufacturing in that

²⁵ For a summary of the evolution of Quebec's Crown Lands policies, see "Forestry Notes in Connection with Stumpage Dues in Quebec" in Quebec Sessional Papers, 1909-1910, pp. 99-110.

province.²⁶

During the final two decades of the nineteenth century, it seems that the debate over the disposition of the proceeds from the sale of Crown lands intensified, in particular, within the province of Ontario. The political opposition expressed the view that the province need not rely so heavily on this source in order to meet its ordinary expenditures. They contended that rather than spending the proceeds from land and timber sales in either public works or on relief of local taxation, such proceeds should be invested in interest bearing securities designed to yield cash revenues.²⁷

In 1886, treasurer A.M. Ross wondered whether the people of Ontario would "have consented to be deprived of these grants for local relief in order that the amount might have been deposited in banks or invested in bonds to lay up a fund for posterity?"²⁸ Ross acknowledged it might be held that the proceeds from the sale of Crown lands were used to cover expenditure of a temporary character. He concluded however, that: "I doubt if it will be denied that the grants to Education and Agriculture leave in the increased intelligence

²⁶ Ibid.

²⁷ Budget Speech of the Honourable A.M. Ross, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, February 18th, 1886, p.15.

²⁸ Ibid.

of the people educated, and the improved methods of agriculture promoted, a much more valuable asset to the country than can be represented by a bank certificate or a government or municipal bond."²⁹ Ross insisted that the people of Ontario preferred to enjoy the improvements which the sale of Crown lands permitted the government to achieve rather than leaving the forests in their primitive state.³⁰ He asked whether:

...the people of this province, outside the City of Toronto, [would] be willing to forgo... grants which have relieved our local municipalities to so great an extent, and which we have been able to make by means of the large revenue from our Crown lands, and woods and forests - in order that our expenditure might remain as it was in 1871... I think not.³¹

During the late nineteenth century, it would seem apparent that neither Quebec nor Ontario had any inclination to sacrifice the revenue from Crown lands. Both provinces shared the view that these earnings represented a vital source of income for which there did not appear to be a viable substitute.

D. Licenses and Law Stamps

While Ontario was able to rely on larger annual income from

²⁹ Ibid.

³⁰ Financial Statement of the Honourable A.M. Ross, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, 21st February, 1884, p. 26.

³¹ Ibid, pp. 26-27.

both the Dominion subsidy and Crown lands, the sources of revenue from which the government of Quebec procured a substantially greater sum were Law Stamps and Licenses. Until the 1880's, neither of these sources of revenue represented a considerable portion of the overall income of the two provinces. During the last two decades of the nineteenth century, the provinces regularly raised the cost of licenses - particularly for the sale of liquor - so that the total collections assumed far more importance within the provincial budgets. In the early 1870's, the cost of Law Stamps was increased considerably by the Quebec provincial government. From 1867 to 1896, the government of Quebec generally collected twice as much per year as Ontario from license revenues. From Law Stamps, the province of Quebec received more than three times the earnings of Ontario. When considering these two sources of income on a per capita basis, the substantial advantage Quebec held over Ontario becomes even more apparent.

TABLE NO. 3-7
Combined per capita revenues from Licenses and Law Stamps
Quebec and Ontario, 1867-1896

	<u>Quebec</u>	<u>Ontario</u>
1867-1876	\$2.18	\$0.40
1877-1886	\$4.34	\$0.62
1887-1896	\$4.83	\$1.16

TABLE NO. 3-8
Provincial revenues from Licenses, Quebec and Ontario
(approximate figures) 1867-1896

	<u>Quebec</u>	<u>Ontario</u>	<u>Difference of</u>
1867-1876 (10 years)	1,140,000	640,000	500,000
1877-1886 (10 years)	2,470,000	1,200,000	1,270,000
1887-1896 (10 years)	5,290,000	2,480,000	2,800,000
TOTAL	8,900,000	4,320,000	4,580,000

SOURCE: Ontario: "Financial Statement of the Honourable A.M. Ross..., February 13, 1890", op. cit., and Quebec: "Detailed Statement of the receipts...", 1893, op. cit. and Budget Speech, Quebec, 9 December, 1896, op. cit., p. 39.

TABLE NO. 3-9
Provincial revenues from Law Stamps, Quebec and Ontario
(approximate figures) 1867-1896

	<u>Quebec</u>	<u>Ontario</u>	<u>Difference of</u>
1867-1876	1,500,000	550,000	950,000
1877-1886	2,500,000	650,000	1,350,000
1887-1896	2,800,000	800,000	2,000,000
TOTAL	6,800,000	2,000,000	4,300,000

SOURCE: Ontario: "Financial Statement of the Honourable A.M. Ross..., February 13, 1890" op. cit., and Financial Statement of the Honourable H.R. Harcourt, 1897, op. cit. Quebec: "Detailed Statement of the Receipts...", 1893, op. cit. and Budget Speech, Quebec, 9 December, 1896, op. cit., p. 39.

Considering the license revenues from the standpoint of the economic cycle during the first thirteen years of the Federation (1867-1880) while Quebec earned approximately 1,000,000 dollars more than Ontario over the following sixteen year period (1886-1896), it earned nearly 3,500,000 dollars

more from this source than its western neighbour. Revenues from licenses can generally be linked to the advance of urbanization since it is within cities that the largest demand existed for liquor licenses. But the government of Quebec's substantial difference in earnings was not a function of a greater degree of urbanization than Ontario. Rather, the three main factors accounting for the gap were as follows: (1) while the Quebec government took virtually the entire income from licenses, the Ontario municipalities obtained approximately half the revenues from this source raised in that province; (2) a far greater impact of the Temperance Movement was felt in the predominantly Protestant province of Ontario versus the fairly limited influence of this movement in the overwhelmingly Catholic province of Quebec; and (3) Quebec often imposed increased fees on Licenses at peak periods in the economy, whereas the province of Ontario was more cautious in this regard.³²

The province of Quebec began a series of increases in the license fees in the mid-1870's at the very beginning of the recessionary period. These hikes were greeted with little enthusiasm by the group most affected namely the tavern owners. The latter maintained that the government could not have chosen a worse time to raise such fees when industry was

³² F.S. Spence, "The Facts of the Case for the Total Suppression of the Liquor Traffic" in Royal Commission on the Liquor Traffic, Ottawa, Queen's Printer, 1896, pp. 160-161.

somewhat paralysed and few businesses were yielding a profit.³³ Nonetheless, there was little the tavern owners could do faced with a government determined to generate more revenue from a source which offered potential for successful increases. Quebec treasurers justified these hikes by pointing to the very minimal tax burden on industry in the province. In 1877, Quebec treasurer L.H. Church argued that:

... qu'à part peut-être un petit excédent de taxes sur les spiritueux vendus en détail, les timbres, et un faible droit sur les polices d'assurance, le contribuable du Québec n'est pas plus taxé qu'il ne l'était il y a dix ans.³⁴

Analyzing the difference in revenues between the provinces, Ontario treasurers frequently referred to the higher cost of licenses in Quebec. Noting that Ontario generally issued a much greater number of licenses the major factor accounting for Quebec's larger revenue from this source was that the province did not share the income with its municipalities. In fact, the combined provincial and municipal income from licenses in Ontario usually exceeded collections in Quebec (i.e., in 1885, Ontario collected approximately 400,000 dollars - municipal, 235,000, provincial 165,000 while Quebec's total revenue was 275,000 dollars). As Ontario treasurer A.M. Ross observed "it may be said that we have

³³ The Montreal Star, December 1, 1875, p. 2. The editor of the newspaper added that "...the Treasurer should have turned his attention toward diminishing expenses instead of heaping on additional taxation..."

³⁴ Discours budgétaire de L.R. Church, 31 janvier, 1878, in DALQ, session de 1877-1878, p. 111.

placed the city licenses at a pretty high figure, they are not now as they are in cities in the neighbouring province of Quebec ...[where]... every cent is taken by the Government not a cent going to the municipality."³⁵

Unlike cities in the province of Quebec, Ontario municipalities fiercely pursued efforts to protect and enhance their sources of income. But the Ontario government was equally determined in the mid-1880's to increase its income from this source and consequently passed legislation which imposed "...fees for the exclusive benefit of the province, over and above all other fees statutory and municipal."³⁶

Simultaneous efforts by federal and municipal authorities to challenge provincial jurisdiction over license revenues contributed perhaps indirectly to augmenting the income which the provinces derived from this source. The first measure which potentially threatened the province's license revenue was the passage of the Canada Temperance Act, also known as the Scott Act. When it was introduced by the federal government in 1878 the legislation permitted a majority of voters within a given municipality to prohibit the sale of "intoxicating" liquors. Spearheaded by the overwhelmingly

³⁵ Speech of the Honourable A.M. Ross, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, 18th February, 1886, p.27.

³⁶ Ibid.

Protestant Temperance Movement, the Scott Act had little effect in largely Catholic Quebec, with the possible exception of the Eastern Townships. The initiative pursued by the Temperance Movement also provoked a constitutional confrontation between the federal and provincial authorities over what proved to be an important financial question. The link between provincial autonomy and financial security was reinforced around the liquor question and thereby heightened the need for provincial co-operation on fiscal affairs.

Shortly after the Scott Act was passed by the Dominion Parliament an effort was made to secure its adoption in a number of Ontario municipalities. At the outset, the results were not encouraging for the Temperance movement. Continued campaigns by the Temperance movement showed some results so that by 1886, a total of about twenty municipalities adopted the law. The revenue effects of the Scott Act may have had a negative impact on the Ontario government's income from this source were it not for the series of increases imposed by the Mowat administration. Under the Liquor License Act of 1884, Ontario treasurer Ross raised the duty on tavern licenses by over 50% in cities and by about 25% in towns. As noted earlier this resulted in a very significant increase in income which was subsequently trimmed in 1885 by the adoption of the Scott Act on the part of more Ontario municipalities. Unwilling to accept this fiscal setback, the government of

Ontario countered the municipal action with further fee increases that ultimately propelled the license revenue to record sums.

In view of the reaction by provincial authorities to the potential loss of income created by Dominion legislation on licences certain Ontario municipalities had a concern over reductions to their revenue from this source. Ross recognized that the fee increase might interfere with what were regarded by some as "municipal rights" in limiting the share of total available revenue.³⁷ By raising the fees too high, municipal officials believed that they would be unable to increase their charges and thereby risked any further opportunity of generating greater revenue from liquor licenses. On the basis of the preliminary results of the fee increases, the provincial treasurer observed only a very small change to municipal income from licenses. Nonetheless, it is clear that a revenue where by far the largest share was previously taken by the municipalities saw the fiscal advantage turn to the provincial government by the mid-1880's.

³⁷ Ibid, p. 27.

TABLE NO. 3-10
Provincial and Municipal Income
from licenses in Ontario for select years 1876-1892

	Municipalities	Province
1876-1877	281,000 (78%)	79,000 (22%)
1881-1882	284,000 (76%)	93,000 (24%)
1886-1887	153,000 (41%)	216,000 (59%)
1891-1892	295,000 (41%)	308,000 (51%)

SOURCE: Ontario Elections: the platform of the opposition, 1894, p. 16.

With the difficulty of obtaining total prohibition perhaps ironically the Temperance movement contributed to improving the financial position of Ontario with the fee increases that were implemented by the province. Treasurer Ross pointed out that representations for increases to the cost of licenses emerged from both advocates and opponents of the Scott Act. Ross was able to argue that the increases of 1885 and 1886 went in the direction advocated by the Temperance movement. In 1886, the treasurer concluded that:

These amounts... are not as high as have been asked by those who have made representations to the Government in the interests of Temperance, but they were as high as the Government felt they were in a position to go at the present time...³⁸

Supporters of the Temperance movement in Ontario hoped that the sharp increases in the cost of licenses would discourage the growth of retail liquor establishments. But within a few years it became clear that this was not to be the case and

³⁸ Ibid, p. 25.

therefore, by the early 1890's the Scott Act was repealed. Analysts attributed the failure of the law to the expectations of the Temperance movement whose ultimate objective was total prohibition. With the Scott Act, the Temperance movement obtained a law which was, according to one source, "... local and therefore manifestly difficult of working."³⁹

During the 1880's, the Quebec government was much less concerned than its neighbour by the possible affects of the Scott Act. As treasurer Joseph Shehyn noted in his 1887 budget speech: "Up to now the operation of the Scott Act does not seem to have affected the license revenues. That law does not appear to be well appreciated in this province and its enforcement has made but little progress - in fact, public opinion seems to be unfavourable to it."⁴⁰

During the decade, Quebec treasurers were preoccupied by what they considered a far more potent threat emanating from the federal government to the province's license revenue. As a result of an 1882 Privy Council decision which upheld the Scott Act, it appeared that the authority to deal with the regulation of the liquor traffic rested with the federal government. In 1883, the federal government made an effort to

³⁹ F.S. Spence, op. cit., p. 160.

⁴⁰ Budget Speech delivered by Honourable Joseph Shehyn, Treasurer of the Province, in the Legislative Assembly of Quebec, 12th April, 1887, p. 51.

test its power by passing the McCarthy Act, also known as the Dominion Liquor License Act. With this legislation it was possible for the Dominion to issue licenses for a number of business operations including hotels and saloons. In the event that the federal legislation was upheld by the courts, the province of Quebec was prepared to adopt measures that would compensate for the potential loss of revenue. As Quebec treasurer J.G. Robertson remarked in his 1884 budget speech:

If the Dominion Law is declared Constitutional and if the right of cities to limit the number of licenses to be issued is carried into operation, the only recourse we have is to increase the license fees ... Our other sources of revenue are few and fluctuating and cannot with propriety be increased.⁴¹

The Ontario administration was upset by the needless expenditure which resulted from the disputes which emerged with federal authorities over license revenues. Ontario politicians maintained that the license question had been thrown into confusion for a number of years as a consequence of the inappropriate course pursued by the Federal government on this matter. In his budget speech of 1886, Ontario's treasurer remarked that:

the totally uncalled for intrusion of the Dominion government into our license affairs, and its refusal to withdraw even after the decision...of the Supreme Court on the McCarthy Act, had demonstrated beyond doubt that the intrusion was

⁴¹ Budget Speech by the Honourable J.G. Robertson, Treasurer of the Province, delivered in the Legislative Assembly, Quebec, May 2nd, 1884. p.6.

illegal and unjustifiable.⁴²

Much to the satisfaction of the governments of Quebec and Ontario, shortly after its passage the Supreme Court declared the McCarthy Act "ultra vires" of the Dominion Parliament, and as a consequence, the sale of liquor was to remain within the exclusive jurisdiction of the provinces. In 1886, the Judicial Committee of the Privy Council made a final ruling that firmly established the authority of the provinces with regard to the issuing of liquor licenses. In 1888, the Mercier administration increased the duties on all licenses for the sale of intoxicating liquors by 25 percent.⁴³ Certain members of the political opposition, particularly representatives from Montreal, suggested that the hike was somewhat excessive. Generally however, there was little criticism of this measure from the provincial Conservative administration which had relied heavily on this source of income. In terms of the granting of a license, the provincial government regularly reaffirmed its authority. As Liberal treasurer Joseph Shehyn remarked: "...nous voulons garder le contrôle et... nous serons les meilleurs juges, s'il faut

⁴² Speech of the Honourable A.M. Ross, Treasurer of the Province in the Legislative Assembly of Ontario, 18th February, 1886, p. 32.

⁴³ "An Act to amend the Quebec License Law" in Statutes of Quebec, [asserted to 12th July, 1888], 51-52 Vict., Cap. 10, 1888, p. 33.

donner ou refuser telle license".⁴⁴ From 1890 to the end of the century, the Quebec administration regularly increased the cost of licenses to the point where the total revenue from this source assumed much greater importance than it previously had relative to the other two major sources of revenue.

E. Direct Taxation

(i) introduction

Under the terms of the Confederation Act, the provinces were provided with a potentially important source of income with the possibility of implementing direct taxes. Under the 1867 Act, while the Federal government was given the broadest power to "raise money by any mode or system of taxation" the provinces were allowed to employ direct taxation for the "raising of a revenue for provincial purposes." Upon first glance it might seem as though there was jurisdictional conflict over the power of direct taxation between federal and provincial authorities. But it is clear that the Dominion's taxing power was broad and inclusive of any and every form of taxation while the power of taxation accorded to the provinces was limited. Ultimately some confrontation over this mode of taxation between federal and provincial authorities seemed inevitable.

⁴⁴ Speech of Joseph Shehyn in DALQ, 20 mars, 1889, p. 2803.

During the 1860's the ability to impose direct taxes was considered "as much a cause for embarrassment as celebration."⁴⁵ In effect, at that time this form of taxation was considered an evil fiscal mechanism whose use, some contended, was only likely to emerge under the most desperate circumstances. It was generally contended that "...le Canadien [the French Canadian], comme tous les autres peuples hait la taxe directe, mais subit assez volontiers la taxe indirecte". Indeed, the direct tax was so unpopular that opponents of Confederation frequently alluded to the strong possibility that under the new system such taxation was inevitable. The proponents of the Federation denounced those politicians who resorted to fear mongering as a way to obstruct the negotiation over the 1867 fiscal arrangements.⁴⁶

While, for example, George Brown was an advocate of direct taxation, in general the architects of Confederation were well aware of the reluctance on the part of provincial administrators to introduce direct taxes. As the pre-Confederation Minister of Finance, Alexander Tilloch Galt recognized:

one of the wisest provisions in the proposed Constitution ...is to be found in the fact that those who are called upon to administer public affairs will feel, when they resort to direct taxation that a solemn responsibility rests upon

⁴⁵ Perry op. cit. p.4.

⁴⁶ Gouin, "Question Actuelle...", op. cit. pp. 21, 70.

them...

Moreover, the political risks associated with the adoption of such a measure were not to be minimized. Galt did not believe that recourse to direct taxation would become a necessity. He concluded that:

...if the men in power find that they are required by means of direct taxation to produce the funds necessary to administer the local affairs, for which abundant provision is made in the scheme (of Confederation), they will pause before they enter upon any career of extravagance.⁴⁷

Galt's position held true so long as revenues stayed in line with expenditures. But the pressure of increased provincial expenditures and in the case of Quebec the accumulation of debt appeared to give treasurers strong reason to consider the possibility of implementing direct taxation. By the late 1870's, Quebec treasurers were frequently speaking of the inadequacies of the existing sources of revenue under the Confederation Act. Yet, despite the passage of time, it remained true that governments ignored the political consequences of the imposition of direct taxes at their own peril. As tax historian Perry remarked, the minimal value of direct taxation was accurately perceived by the Fathers of Confederation as the tax was not imposed for nearly three decades.⁴⁸ In spite of Perry's observation during the 1880's, provincial governments and notably that of Quebec

⁴⁷ Waite. op. cit. pp. 53-54.

⁴⁸ Perry op. cit. p.5.

prepared their constituents for the inevitable use of this taxing power.

TABLE NO. 3-11
Annual income from direct taxes
in Quebec and Ontario, 1887-1896

	Ontario Succession Duties	Quebec Succession Duties	Commercial Corporation	Tax on Manufacturing Licenses	
1887	-	-	-	-	-
1888	-	-	558,400*	-	-
1889	-	-	144,500	-	-
1890	-	-	130,200	-	-
1891	-	-	140,000	-	-
1892	-	40,000	138,000	292,000	145,600
1893	117,400	150,000	139,000	247,000	106,400
1894	232,000	162,000	143,000	186,000	122,000
1895	383,600	163,000	148,000	184,000	80,000
1896	274,500	160,000	160,000	-	-
	1,007,500	675,000	1,701,100	909,000	454,000
<u>ONTARIO TOTAL: \$1,007,500</u>		<u>QUEBEC TOTAL: \$3,739,100</u>			
=====		=====			

*This figure includes the arrears of the direct tax on commercial corporations in Quebec, 1882-1887.

SOURCE: Quebec: "Detailed Statement of the Receipts of the Province of Quebec...", 1893, op. cit. and Budget Speech, 9 December, 1893, op. cit., p. 39. Ontario: Financial Statement of the Honourable A.M. Ross, 13 February, 1890, op. cit. and Budget Speech, Quebec, 9 December, 1896, op. cit.

In his assessment of nineteenth century natural resource policies in Ontario, historian H.V. Nelles wonders whether the extreme aversion to direct taxation was a function of comparative economic underdevelopment or a resistance to suffer taxation when other sources of revenue were close at hand. He considers whether Ontarians were inclined to regard

natural resource revenues as more acceptable because of their reluctance to pay "directly" for the services which they expected. Nelles concludes that many people saw resource sell-offs as a good alternative to the introduction of the nefarious direct tax.⁴⁹ Clearly, French Canadians were not alone in their disdain for this mode of taxation.

An important challenge has been directed at H.V. Nelles' hypothesis regarding the need for resource exploitation as the predominant form of revenue in the nineteenth century budget of Ontario. Robin Neill contends that there was a transitional stage until the tax base was sufficiently supported by a certain level of industrial progress whereby it was natural and inevitable for the provinces to resort to resource extraction as a main source of revenues.⁵⁰

The introduction of direct taxes was an important development in the fiscal evolution of the provinces. As such a measure was generally linked to budgetary need, it first emerged in Quebec. Governments were able to control the impact of the tax through the manipulation of the incidence of the tariff. In the early 1880's, the Quebec government was timid in the rates which it imposed as opposition to the possibility of implementing commercial corporate tax was not inconsequential.

⁴⁹ Nelles, "Politics of Development" op. cit., p. 46.

⁵⁰ Neill, "The Politics and Economics...", op. cit.

Clearly, however, the advance of industry created greater demands upon government, particularly at the local level. In his book Essays in Taxation, one of the foremost North American authorities on public finance during the late nineteenth and early twentieth centuries, E.A. Seligman, noted that direct taxation was the last step in the historical development of public revenues. He suggested that the introduction of commercial corporate taxes and succession duties which occurred in the 1880's in the larger States of the Union, was the logical outcome of the attainment of a certain level of industrial development. Seligman argued that the relationship of government to business life resulted in necessary changes to fiscal strategies. He enunciated certain principles and referred to a set of conditions which contributed to the implementation of commercial corporate taxes.⁵¹

Economic conditions varied widely throughout the country and the transition from the frontier life and the activity of a purely agricultural community to the conditions of a highly developed and complex industrial community, made far more progress in some sections than in others. What was good for one region was not necessarily in the interest of another. This was often true for the implementation of certain forms of

⁵¹ Edwin A. Seligman, Essays in Taxation, Tenth Edition, New York: The Macmillan Company, 1931, p. 6.

taxation. He stated that when "...business was purely local in character, as in former times, the local authorities were competent to deal with it". But Seligman added that the expansion of corporations had stretched business activity beyond local bounds.⁵²

The expansion of industrialization was, according to Seligman, everywhere creating greater demands upon the Treasury. Among the major conditions which gave rise to direct taxation, Seligman identified the following: a growing lack of equality in tax burdens - not only between classes in the community, but between individuals of the same class - the failure to make business corporations and great wealth bear their fair share of taxation and the application to general purposes of what was intended to be only a local revenue. On this last point, Seligman contended that:

...direct taxation was originally local in character, and the assessment of property for local taxation was at the outset a comparatively simple matter... But with great development of state functions, and with the breakdown of the local barriers of commerce and industry, what was originally equal soon turned into inequality, and the attempt to fetter interlocal or even interstate business conditions by the bounds of purely local assessment [had] proved to be a fruitful source of difficulty.⁵³

Seligman felt that the circumstances which he described characterized the Canadian experience in the late nineteenth

⁵² Ibid, pp. 348-349 and p. 353.

⁵³ Ibid, p. 349.

century. From an economic standpoint, Quebec's decision to introduce commercial corporate taxes in the 1880's, was neither inappropriate nor without precedent. The province's financial dilemma in the latter part of the nineteenth century resulting from its extraordinary developmental spending, clearly played a role in its adoption of this tax prior to the Ontario administration taking a similar step. But the latter province merely delayed what proved to be inevitable as the government's introduction of large capital expenditures in the early twentieth century would require new revenues.

While Nelles juxtaposes the need for Crown land revenues against the introduction of direct taxes, this was not necessarily where the debate was situated in Quebec. Indeed, if any linkage of possible sources of funds was to be made, the more frequent scenario that Quebec treasurers presented to the population was the option of continued borrowing versus the imposition of direct taxation. During the 1880's, as clearly evidenced in their annual financial statements, such was the choice proposed by the treasurers of the province.

It should be noted that most observers share the view that direct taxation better conforms to a modern economic structure than does the dependence upon income based on resource extraction. There appears to be an underlying assumption among certain contemporary analysts that the governments of

Quebec and Ontario were able to choose one source of income over another during the nineteenth century. This argument must be understood in the context of the income base provided under the 1867 arrangements by the Dominion to the provinces as well as the subsequent financial evolution of Quebec and Ontario in the first few decades of the Federation. For the government of Quebec there was little debate as to whether resource based revenue or direct taxation was a more logical choice in their effort to deal with constantly rising expenditures. Beginning in the 1880's, the treasurers of the province had every intention of exploiting both sources of income so long as the political conditions permitted such action.

Financial considerations were the predominant factor influencing the decision to introduce direct taxes in Quebec during the late nineteenth century. In the province of Ontario, the emergence of direct tax did coincide to some extent with debates about the varying degree of resource extraction. For example, in the mid-1880's, Ontario treasurer A.M. Ross faced the possibility that with a diminution in Crown lands revenues, the province would soon be confronted with direct taxation. Much like their Quebec counterparts, Ontario treasurers eventually coveted both sources of income. While some opinion makers of the day supported direct taxation as an alternative to resource extraction, their views

generally remained outside the mainstream rather than being accorded significant consideration in the ultimate development of fiscal policy.

(ii) Quebec

The introduction of commercial corporate taxes was not the first effort by the Quebec government to implement what it considered to be direct taxation. During the late 1870's, the Quebec government experimented with its taxation power by introducing a fee on the sale of insurance policies. The insurance companies challenged the tax before the courts suggesting that it constituted an indirect form of taxation and was therefore, outside the authority of the provincial government. Much to the dismay of the Quebec government, the courts ruled in favour of the insurance companies by declaring the tax to be indirect. In his 1878 budget speech, Quebec treasurer L.H. Church complained that: "la constitution ne définit pas ce qui est une taxe directe ou une taxe indirecte et ses termes sont d'une telle élasticité et d'un caractère si indéfini que des financiers, des législateurs et des juges sont bien pardonnables de ne pas s'entendre entre eux". Church concluded that:

Je n'ai jamais pu penser à la taxe directe ou indirecte sans penser à deux soeurs attrayantes... l'une est brune et l'autre est blonde, l'une étant plus expansive et l'autre plus réservée. Je ne saurais comprendre pourquoi il y aurait de la

rivalité entre les admirateurs de ces deux femmes.⁵⁴

The government of Quebec by no means abandoned its efforts to implement direct taxes in spite of the failure of the tax on insurance policies. Within less than five years, another experiment in taxation was conducted by the provincial Conservatives.

Quebec and Ontario politicians were regularly monitoring the evolution of taxation in America and Europe. Developments in major centres abroad had a definite impact on provincial administrators and to a certain degree set the stage for the eventual use of direct taxes. A tax on commercial corporations was first introduced by the government of Quebec during the year 1882. The American influence on Quebec's legislation in this area is suggested by the fact that only two years prior, the State of New York had completely overhauled its fiscal structure and moved in the direction of commercial corporate taxes. While the implementation of this tax within Quebec met with considerable resistance, the opposition to the measure, contrary to what some might assume, did not emerge primarily from the French Canadian majority. Rather, the tax came under attack from the largely English Canadian business class within the province which was concerned over a significant drain on profits. During the

⁵⁴ Discours budgétaire de L.R. Church, 31 janvier 1878, in DALQ, 1877-1878, p. 103.

1880's, two forms of direct taxation that received considerable attention from authorities in Quebec and Ontario were the inheritance tax, also referred to as succession duties, and the tax on commercial corporations. Both of these measures were aimed at taxing accumulations of wealth within the society. As J. Harvey Perry points out "... wealth presented a taxable subject that not only the tax authorities but the public at large felt was escaping fairly lightly under existing measures."⁵⁵

Numerous analysts have stressed the great reluctance on the part of French Canada to accept direct taxes. Some have referred to the relatively lower levels of accumulations of wealth and property as the main factor contributing to their reluctance. In an article on the taxation of corporations in Canada, one observer characterized the situation as follows:

Quebec stands out prominently as the only province which has not had recourse to a tax on personal property. The French-Canadian majority has always been opposed to direct taxation in any form and has regarded with disfavour any move toward an extension of the system. In the eighties when the growth of trade and commerce had increased the amount of personalty (personal property), an effort was made to reach this form of wealth which had hitherto escaped taxation. For the cities a substitute was found in the French business tax: but for provincial purposes the example of the American states pointed towards corporation

⁵⁵ Perry, op. cit., p. 5.

taxes.⁵⁶

During the 1880's, the province of Quebec was continually plagued by its accumulated debt and the need to avert further annual deficits. It appeared as though Quebec was determined to employ all available means to correct its fiscal situation. Early in the 1880's, Quebec treasurer J.G. Wurtele claimed that the government would soon be compelled to impose direct taxes. This was stated despite previous promises by the Quebec administration that such action would not be taken. Wurtele justified the province's reversal in the following way:

... the apprehension of a probable decrease in some of our sources of revenue, make it an imperative duty for us to take immediate steps to increase the revenue of the province ... I have long and seriously thought over the financial position of the province, and, notwithstanding the very great repugnance I feel to imposing any new burden, however light, upon the people, still I really do not see any other way of getting out of our difficulty.⁵⁷

Wurtele considered it highly appropriate to tax the business class which he contended did benefit most, for example, from the expansion of the railway network that was the major cause of the province's debt. Wurtele pointed out that:

⁵⁶ J.H. Blumenstein, "The Taxation of Corporations in Canada" in National Problems of Canada, McGill University Economic Studies, No. 3., 1930, p. 22. The repugnance of French Canadians towards direct taxation is also developed by Solomon Vineberg.

⁵⁷ Budget Speech of the Honourable J.G. Wurtele, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, 15th May, 1882, pp. 27-28.

...which class profits the most by these improvements? It is assuredly the commercial class, although all the inhabitants of the Province, have also benefitted by them. As the commercial class derives the greatest benefit from the sums so expended by the Government, it should contribute the most to the revenue, while at the same time it is the best able to do so.⁵⁸

In its original form the tax on commercial corporations was to be levied by imposing license duties upon certain institutions and specifically, banks, insurance companies, joint stock manufacturing or commercial companies, loan, navigation, telegraph, telephone, city passenger and ordinary railway companies. Upon further consideration Quebec treasurer Wurtele decided to implement a direct tax upon the franchise of the corporations rather than a license duty. The tax therefore was designed to be a nominal charge based on the value of "paid-up capital" and on the number and location of commercial establishments. The distinction between the two, Wurtele contended was largely "... a difference in form and one in which in no wise [sic] affects the substance."⁵⁹

The "Act to impose certain direct taxes on certain commercial corporations (assented to May 27, 1882) called upon banks - among other institutions to contribute on the following basis:

- (a) Five hundred dollars, when the paid up capital of the bank is five hundred thousand dollars

⁵⁸ Ibid., p. 29.

⁵⁹ Ibid., p. 40.

or less than that sum: one thousand dollars when the paid up capital is from five hundred thousand dollars to one million dollars; and an additional sum of two hundred dollars for each million or fraction of a million dollars of the paid up capital from one million to three million dollars: and a further additional sum of one hundred dollars for each million or fraction of a million dollars of the paid-up capital over three million dollars.

- (b) An additional tax of one hundred dollars for each office or place of business in the cities of Montreal and Quebec and of twenty dollars for each office or place of business in every other place.⁶⁰

The Quebec administration was aware of a possible challenge to its jurisdiction in this area of taxation from either businessmen and/or the federal authorities who would likely argue that the proposed tariff on commercial corporations was an indirect form of taxation and therefore not within provincial jurisdiction. Aside from referring to similar measures recently implemented in the State of New York, to further justify his action, treasurer Wurtele relied heavily on expertise on taxation questions that emanated from the United States and France. He insisted that the provincial Legislature was well within its right to raise this revenue. He reiterated the view that:

the state can impose duties in accordance with the wants of the Treasury, upon any corporation which derives its franchises from the Government, and upon any foreign corporation doing business within

⁶⁰ "An Act to impose certain direct taxes on certain commercial corporations" [assented to 27th May, 1882] in Statutes of Quebec, 45 Vict., Cap. XXII, 1882, p. 106.

the limits of the state...⁶¹

Nonetheless the large banking institutions within the province intended to employ all means available to block Quebec's effort to collect such a tax. Maintaining that the tax was an indirect one, in 1883 the banks brought their case before the Superior Court. In May of that year the Court ruled in favour of the banks upon the ground that:

... the tax is an indirect one. That it is not imposed within the limits of the province, that the Parliament has the exclusive power to regulate banks, that the provincial legislature can tax only that which exists by their authority ...and that if with the power to tax such banks as they exist, they may be crushed out by it ...the power of Parliament to create them may be nullified.⁶²

Generally reflecting the view of the province's business class, the Montreal Gazette, was satisfied with the decision. Insisting from the outset that the tax on corporations was unconstitutional, the Montreal Gazette described the government's initiative as an attempt to raise money by indirect methods from the comparatively few to be expended for the benefit of the many. But the victory of the banks did not go unchallenged by a provincial government which was determined to expand its sources of revenue during that

⁶¹ Budget Speech of Treasurer of the Province of Quebec Honourable J.G. Wurtelle in the Legislative Assembly of Quebec, on 15th May, 1882, p. 44.

⁶² "Address of the Legislative Assembly dated 28th May 1888 asking for Judgement of the Judicial Committee of the Privy Council", in Quebec Sessional Papers, 51-52 Vict, volume 21, no 40, 1888. p. 4.

decade.

During the early 1880's, it has been noted that Quebec was defending its license revenues while negotiating a revision to the Dominion subsidy. The challenge to the tax on corporations might be considered as yet another front in which a vital constitutional question was being fought out with important ramifications for the financial and political evolution of the province. Under these circumstances, the Quebec government took the case for the "tax on corporations" to a higher court. In January 1885, by a vote of three to two judges the earlier decision of the Superior Court was overturned by the Quebec Court of Appeal, resulting in a rejection of the position of the Banks and an affirmation of that of the province. The decision was based on the following two grounds: (a) that the tax was a direct one and; (2) that it was a matter of a merely local or private nature as stipulated in Section 92, paragraph 2, of the British North America Act which gives the provinces jurisdiction in relation to the power of "Direct Taxation within the Province in order to the raising of a Revenue for Provincial Purposes."⁶³

A final appeal on the matter was heard by the Lords of the Judicial Committee of the Privy Council. Following the methods of inquiry adopted in previous cases, the Judicial

⁶³ Ibid. pp. 4-5.

Committee asked whether the override power in Section 91 of the BNA Act limited the meaning of Section 92? They noted that it was true of every indirect tax, that some persons were both the first and final payers of it. But the provincial legislature could not possibly have meant to give a power of taxation according to its actual results in particular cases.

The Judicial Committee concluded that the Quebec legislature both intended and desired that every corporation from whom the tax was demanded should pay and finally bear it. The tax in question was demanded directly from banks, apparently for the legitimate end of receiving contributions for provincial purposes from those earning profit by provincial business. They thus deemed that the charge on commercial corporations was direct taxation as properly defined under Section 92 of the BNA Act.⁶⁴

Their Lordships also rejected the Banks allegation that the provincial legislature might impose so heavy a tax as to "crush a bank out of existence" thereby nullifying the power of Parliament to erect such institutions. They could not conceive that when the Imperial Parliament conferred wide powers of local self-government on Quebec, it simultaneously sought to curtail them in the belief that they might be

⁶⁴ "Judgement of the Lords of the Judicial Committee of the Privy Council..." in Quebec Sessional Papers, 51-52 Vict., no. 40, 1888.

employed in an injurious way. "People who are trusted," their Lordships concluded, "with the great power of making laws for property and civil rights may well be trusted to levy taxes."⁶⁵

The 1887 decision by the Judicial Committee constituted an important victory for the province of Quebec over the Federal government. Within months of this decision, the Quebec administration proceeded to enforce the payment of the taxes that were due from 1882 to 1887. In his budget speech of June 1888, the Mercier administration's treasurer, Joseph Shehyn, reported that with the arrears, the province collected approximately 550,000 dollars from the tax on commercial corporations.⁶⁶

When in opposition Shehyn had been critical of the Conservative government when the tax was first introduced. Once in power, however, he recognized that while the tax contained certain provisions that were "somewhat arbitrary", it was necessary to "...observe it as it is, so long as circumstances will not allow of its repeal".⁶⁷ Shehyn

⁶⁵ Ibid, p. 9.

⁶⁶ Budget Speech delivered by the Honourable Joseph Shehyn, Treasurer of the Province in the Legislative Assembly of Quebec on the 15th February, 1889, p. 11.

⁶⁷ Budget Speech delivered by the Honourable Joseph Shehyn, Treasurer of the Province, in the Legislative Assembly of Quebec on the 14th June, 1888, p. 48.

insisted that the "government's hands were tied" until such time as the Treasury was in a better state, a contingency, which he held was more or less remote on account of the legacy of debt left by his predecessors. Shehyn nonetheless hinted at the possibility that the tax might be adjusted or even withdrawn altogether were the province successful in its negotiations over a substantial revenue increase from another source. In his 1888 budget speech, Shehyn remarked that:

We regret to be under the necessity of collecting this tax, but, if we obtain the changes we ask in the figure of the federal subsidy, I have every reason to believe that we will be then able to consider the propriety of materially modifying or repealing it.⁶⁸

The official confirmation of the provincial legislature's right to impose the commercial corporate tax was greeted with little enthusiasm by the business class. The Montreal Gazette had previously warned of ominous consequences arising from such a power being granted to the provinces. It stated that:

It is undeniable that if the provincial legislators have the right to impose the tax in question, their power is without limit, and if one provincial legislature possesses it, all do. If then, the legislature of this province has the constitutional power to impose a tax of \$1,000 on the capital of each bank and \$100 on each office, what is to prevent it from following the example of the State of Ohio, in 1819, as to the Bank of the United States, and imposing a tax of 50,000 on each office which a bank might establish? And if this province has the right, then each of the seven provinces which constitute the Dominion have the same right!⁶⁹

⁶⁸ Ibid.

⁶⁹ Montreal Gazette, May 14, 1883, p. 6.

The Montreal Gazette liked to remind Premier Honoré Mercier of his 1886 Campaign pledge that once elected he would repeal the tax on corporations. But despite the Gazette's hopes that the tax would be lifted, shortly after the 1888 budget speech, the Mercier administration increased the charge on certain corporations. In that year the larger banks were required to contribute as much as 50% more than the amount they had originally paid while the tax on smaller corporations was reduced. In addition to this, there was still a charge of one hundred dollars for each office or place of business in the cities of Montreal and Quebec, and of twenty dollars for each office or place of business in any other city or towns.

TABLE NO. 3-12
Revised fee schedule for direct tax
on commercial corporations from 1882 to 1888

OLD ACT - 1882	PAID UP CAPITAL	NEW ACT -1888
\$ 500	500,000 (or less)	\$ 500
1,000	1,000,000	1,000
1,200	2,000,000	1,500
1,500	3,000,000	2,000
1,600	4,000,000	2,250
1,700	5,000,000	2,500

SOURCE: Statutes of Quebec, Vict. 51-52, Cap. XI, 1888, p. 35.

Treasurer Shehyn admitted that prior to 1888, the law as it stood was unjust in that it "weighed unduly and unfairly upon

the small corporations".⁷⁰ The Quebec treasurer described amendments made to the law in 1888 as an attempt at arriving at a more equitable distribution of the incidence of the taxation and, by a more appropriate apportionment as to relieve the smaller corporations from a burden which weighed too heavily upon them. This was accomplished by subjecting incorporated companies only to the payment of a percentage "pro rata" of their paid up capital. In his 1889 budget speech, Shehyn concluded that:

our only crime, if it can be considered one, was to have attempted to amend the law, so that the burden of taxation should be more equally distributed without, however, increasing the total revenue derivable from the tax.⁷¹

The Montreal Gazette was extremely disappointed at the steps taken by the Mercier administration with regard to the corporate tax. It considered the decision of the Judicial Committee to be an erroneous one adding that the tax would constitute a serious impediment to the growth of industrial enterprise in the province. The Montreal Gazette concluded that only a change of government could lead to a repeal of the tax. As the editor observed:

...instead of wiping the obnoxious law off the Statute book, the Government replaced it with a new and more stringent measure. Had ordinary prudence been exercised in the management of provincial affairs this course would not have become

⁷⁰ Budget Speech delivered by Honourable Joseph Shehyn, Treasurer of the Province, in the Legislative Assembly of Quebec on the 15th February, 1889, p. 32.

⁷¹ Ibid.

necessary. This tax could have been repealed without deranging the financial position if the cost of government had been kept down...⁷²

The editor was concerned over the possibility that the province of Quebec would continuously raise the charge on corporations as the government required funds. The biggest fear was that the tax on commercial corporations was the start of a general system of direct taxation.

While the initial sums collected from the tax on corporations were not large relative to the province's overall revenue, the importance of this income rose substantially by the end of the century. The growth of this revenue appeared to be far less the result of higher rates than a significant increase in the number of companies and their offices as well as in the aggregate capital of businesses. At the beginning of the twentieth century, this source of income rose sharply as a consequence of the "take-off" in urban and industrial growth which lasted well into the beginning of the twentieth century.

(iii) Ontario

For its part, the province of Ontario, waited more than a decade after Quebec to implement direct taxes. In his work on the economic history of Ontario, Ian Drummond suggests that the 1890's proved to be that province's decade of fiscal

⁷² "The Tax on Commerce" in Montreal Gazette, July 9, 1888, p. 6.

innovation.⁷³ Historian Margaret Evans argues that the province of Ontario was not forced to direct taxation by the type of financial difficulties that were experienced in other provinces. Therefore, she views the introduction of direct taxes in the 1890's by the Mowat administration as somewhat of a declaration of failure on the part of the Ontario government. The additional revenue was, according to Evans, considered necessary to meet the rising provincial commitments to hospitals and asylums.⁷⁴ Despite Evans' contention, the increased funds were to some extent essential due to what appeared to be a slight deterioration in the financial position of Ontario in the 1880's. The surpluses which Ontario profited from in the early years of the Federation were replaced by a series of deficits in the eighties. From a political standpoint, the Ontario administration recognized that the situation required some remedy. By the end of the decade, the Ontario treasurer observed that:

...we have for a good many years heard annual homilies upon the necessity of stringent economy and predictions that the province was rapidly nearing if it had not already reached, a position when it would have to borrow to meet its ordinary expenditure, or resort to direct taxation. We recognize the necessity of economy and have accepted in good part the rather gloomy and dark coloured pictures of approaching ruin, which no doubt with the best intentions have been held up to

⁷³ Ian Drummond, op. cit., pp. 341-342.

⁷⁴ A. Margaret Evans, "Oliver Mowat and Ontario, 1872-1896: A study in Political Success", Ph. D. Thesis, University of Toronto, 1967, p. 470.

us as a warning.⁷⁵

Predictions that the Ontario administration would ultimately resort to direct taxation began to surface in the 1880's. In 1885, opposition Conservative budget critic, Adam Creighton, pointed out that the Ontario government "seemed to be at last awakening to a realization of the fact that they are rapidly dragging the province down to direct taxation."⁷⁶ While Creighton repeatedly warned of such a possibility, it had been just as persistently denied by the Mowat Liberal government. The latter administration was until the 1890's able to stave off direct taxation.

Not until 1899 did the legislature of Ontario introduce a tax on corporations. Prior to the passage of the 1899 Act, the taxation of corporations was almost entirely in the hands of municipalities. Analysts of the period suggested that much like Quebec, the method of taxation adopted by the Ontario administration was based upon the experience of the United States. In the budget statement of the year 1900, treasurer George W. Ross justified the introduction of the tax in the following way:

When that Act was passed we contended that the public necessities required additional revenue, and

⁷⁵ "Budget Speech" of the Honourable A.M. Ross, Treasurer of the Province, in the Legislative Assembly of Ontario, 14th February, 1888, p. 39.

⁷⁶ For Adam Creighton's speech, see Toronto Daily Mail, February 14, 1885, p. 8.

we thought it was most reasonable that large corporations should be made to contribute something to the Provincial Treasury for the moneys they had received and the investments which they were enabled to make through the construction of railways, the improvement of highways and the development of agriculture. No corporation can thrive in a poor country ... we have added to the general wealth of the country, and to the wealth of corporations in particular, by giving them such advantages as that expenditure necessarily involves, it was but reasonable that we should ask them to contribute something in return.⁷⁷

(iv) Succession Duties in the two provinces

For the province of Ontario, the tax on corporations was not its first experiment with the imposition of direct taxes. During the year 1892, the Ontario administration introduced a tax on successions or what was also referred to as an inheritance tax. In the same fiscal year Quebec also passed a law whereby it too exacted duties "...upon the succession of a person dying domiciled in the province". Much like the tax on corporations, the duties on succession were generally considered a charge on accumulated wealth. During that period one of North America's leading authorities on taxation suggested that the tax on inheritances was based upon the doctrine that:

...it is the function of government to use the power of taxation as an engine of social repartition in checking the growth of large fortunes and in bringing about a more equal

⁷⁷ Financial Statement of the Honourable George W. Ross, Treasurer of the Province, delivered on the 8th March, 1900 in the Legislative Assembly of Ontario, Toronto, p. 11.

distribution of wealth.⁷⁸

While the duties on successions were not greeted enthusiastically, they did not confront the same fierce opposition which was met with the tax on corporations. While it had been hostile to the corporate tax, the Montreal Gazette concluded that the tax on successions should remain. The Gazette regarded its introduction as a wise decision since "it imposes no burden on any class and is everywhere looked upon as a legitimate source".⁷⁹ In his 1896 budget speech, Quebec treasurer A.W. Atwater expressed his optimism that this legitimate tariff would yield growing revenues in the future. He observed that:

The Succession Duty Tax is now almost universally adopted by civilised states, and the history of its application is that it is a growing one...As a country grows money will accumulate and fortunes increase. The modest competence of today was a fortune not so very many years ago, and as this is being constantly transmitted by death, the revenue of the state from this source must grow proportionately.⁸⁰

According to Quebec's Law on successions, all those in the direct line, ascending or descending, or between consorts had to pay a duty of 1% if their value exceeded 10,000 dollars; if not, they were exempt from the duty. It was soon discovered that most successions were transmitted in direct line or

⁷⁸ Seligman, op. cit., p.130.

⁷⁹ The Montreal Gazette, December 24, 1894, p. 6.

⁸⁰ Budget Speech delivered by Honourable A.W. Atwater, Treasurer of the Province, in the Legislative Assembly of Quebec, 9th December, 1896, p. 23.

between consorts and that they were generally not very considerable in terms of their total value, as the tax produced a small sum of about 40,000 dollars during the fiscal year 1892-93.⁸¹

As the administration of the 1890's was considered to be in dire need of income, the Act was amended two years after its passage. By the adjustment of 1894, the government of Premier L.O. Taillon aimed particularly at those successions devolving on the direct line or between consorts. As a result, the exemption was reduced from 10,000 dollars to 3,000 dollars and, instead of imposing as in 1892, a uniform duty of 1% on successions over 10,000 dollars, a tax ranging from $\frac{1}{2}\%$ to $3\frac{1}{2}\%$ was imposed on successions, over 3,000 dollars. The administration appeared to attain its objective as within five years from its introduction the annual collections rose from about 40,000 dollars to 230,000 dollars. No further revision of the law was made until 1906.

For its part, we observed that the province of Ontario confined itself to the tax on successions until the turn of the century. During the first seven years in which the Act came into operation, the province earned an average of \$175,000 per annum from this source. Reflecting on the

⁸¹ "The Succession Duties - The Law and its Modifications" in The Gouin Government and its Works: Seven Years of Progress and Sound Administration, Montreal: 1912, p. 35.

results of the Succession duties, in 1900, the treasurer of Ontario concluded that:

The operation of the Succession Duties Act has been very satisfactory and, although it met with some opposition in certain quarters when first imposed, I think practically all opposition is now withdrawn. It does not tax the poor man's estate; it does not tax even the estate of the man of moderate means; it reaches those large accumulations which sometimes have been made through what has been called the profits of the unearned increment, and from savings and investments arising from the growth of large cities and by the change of centres of population.⁸²

(v) Other Experiments in Direct Taxation

In 1892, the Quebec administration experimented with other forms of taxation aside from the taxes on corporations and succession. In that year, treasurer John S. Hall maintained that the province required a million dollar increase in annual income in order to meet its pending financial commitments. Consequently, two additional forms of taxation were put into place which the treasurer insisted were intended as temporary measures. He added that these taxes were imposed with the greatest repugnance.⁸³ The charge on Manufactures and Commerce compelled traders and manufacturers who were not affected by the tax on commercial corporations to take out a

⁸² Financial Statement of the Honourable George W. Ross, Treasurer of the Province of Ontario, delivered on the 8th March, 1900, in the Legislative Assembly of Ontario, pp. 10-11.

⁸³ Budget Speech delivered by Honourable John S. Hall, Treasurer of the Province, in the Legislative Assembly of Quebec, 20th May, 1892, p. 40.

license. The Board of Trade protested strongly against this particular tax which remained in operation for four years. During that period, approximately 450,000 dollars was collected from this source.

A more remunerative tax was placed by the Quebec administration upon the transfers of property. Justifying this tax, in 1895, the Premier and treasurer of the Province, L.O. Taillon, referred to one of the foremost French authorities in the field of finance who regarded this charge as one of the earliest recognized by the civilized world. Frequently cited by Quebec treasurers in the late nineteenth century, French financial specialist Paul Leroy-Beaulieu perceived a close link between the tax on transfers of property and the duty on successions. He wrote that:

...it is the State which is the guarantee of all social transactions. It is thanks to its support, its police, its courts, that property can be safely transferred from the dying father to the surviving son, from the selling proprietor to the acquiring capitalist.⁸⁴

To illustrate the author's idea, Taillon noted that the province of Quebec spent over a million dollars upon the completion of the cadastre which regulates the division of landed property. The Premier maintained that: "...all this wealth be called upon to contribute towards the public revenue

⁸⁴ Budget Speech delivered by Honourable L.O. Taillon, Premier and Treasurer of the Province, in the Legislative Assembly of Quebec, November 26, 1895, p. 26.

and to indemnify the state for all she spends upon its protection".⁸⁵

Leroy-Beaulieu recommended that for the property tax to be successful, it was best kept at a low rate. As the Quebec government laboured under considerable pressure from the business class and the political opposition, it reduced the rate of taxation by one-third in 1894, only two years after its introduction. Prior to its abolition in 1896, the tax on transfers of property provided a four year total income of approximately 900,000 dollars. In his 1896 budget speech, A.W. Atwater lamented the repeal of the tax. He argued that:

We, of course, lose for the future the revenue produced from the taxes on the transfers of real estate and from the Traders and Manufacturers' licenses. The loss of the former was a serious loss... When it was imposed, however, the then administration promised to remove it as soon as possible, and we have endeavoured to redeem their pledge.⁸⁶

As the treasurer contended, the proceeds of the taxes were applied to meet particular railway costs and consequently, he needed another source of funds to provide a substitute for the defunct taxes. Ultimately, the provincial administration turned to loans to cover those costs associated with railways. Atwater concluded that "...in so doing, we consult the best

⁸⁵ Ibid.

⁸⁶ Budget Speech by Honourable A.W. Atwater, Treasurer of the Province, delivered in the Legislative Assembly of Quebec 9th December, 1896, p. 21.

interests of the Province and the wishes of the majority of the population, as it enables us to repeal the Traders' and Manufacturers' Licenses and the tax on transfers of real estate".⁸⁷ Some analysts of the period attributed the election defeat of the provincial Conservatives to the taxation policies adopted between the years 1892 and 1897.

During the nineteenth century, direct taxation was generally regarded as the last step in the development of the public revenues. This form of taxation was an outcome of changes in economic relations and in particular, a growing sense of public obligation to support expanded state functions. The advancement of the welfare state contributed to heightening the public's commitment to defraying the costs of government. The earliest manifestations of the taxing power were considered merciless and brutal. It was not until the introduction of more lenient and refined processes of indirect taxation that a growing willingness emerged on the part of the individual to pay direct taxes. This generally required that a given society possess a certain level of industrial wealth usually associated with a greater degree of urbanization. Another vital reason for the delayed appearance of direct taxation is that indirect taxes were often paid by the contributors without their being fully conscious of it.

⁸⁷ Ibid.

The total annual earnings generated by direct taxes at the time they were introduced, might not have been deemed considerable relative to the income from the Crown lands, the Dominion subsidy or licenses. Nonetheless, their importance should not be underestimated. By following the evolution of direct taxation in the provinces, certain aspects of the broader financial circumstances affecting Quebec and Ontario are revealed. For the province of Quebec it is clear that by the 1880's, the deteriorating financial condition appeared to leave little choice but to use its power of direct taxation. Apart from the ideological opposition exhibited in some quarters to this mode of taxation, Quebec confronted the federal authorities over this fiscal option. In the 1880's, the Federal government's refusal to increase the annual subsidy to the provinces and its challenge to the latter's authority over license revenues, furthered Quebec's resolve to secure the right to tax "wealth" during that decade.

Ontario was able to monitor Quebec's progress in its disputes with the Federal government and the business class over the imposition of direct taxation. Enjoying a more secure financial situation, when Ontario finally entered the field of direct taxation, its eastern neighbour had already established the political and constitutional precedents for such action. That Quebec implemented direct taxes a decade prior to Ontario was not entirely the result of a faster transition to

urbanization and industrialization, nor a consequence of better ideological and political conditions. Rather, it reflected for the most part the province's urgent need for revenues.

F. Interest on Investments

During the first decade of the Federation, a vital source of income which helped to perpetuate the financial disparity between the two provinces was the annual revenue generated from interest-bearing assets amassed by Ontario. Largely on the basis of investing the proceeds from its yearly surpluses, by 1873, Ontario had purchased some 5,000,000 dollars in interest-bearing stocks and bonds. For its part, during the early Federation years, the accumulation of Quebec's yearly surpluses resulted, by the early 1870's, in the acquisition of approximately one million dollars in stocks and bonds. Whereas in 1868 Ontario collected 5,000 dollars from its assets, the figure rose so that by 1873 it earned over 250,000 dollars from this source. Over the same period at the height of Quebec's collections on annual interest, the largest yearly sum was approximately 50,000 dollars (see table 3-13).

Beginning in the year 1880, there was a considerable decline in the annual interest which Ontario earned from the investment of its surpluses. This was a logical outcome of the sale of a significant portion of these investments which

was conducted by the Ontario administration during the 1880's, in order to finance railway and municipal obligations which rose during the period of recession. Still, during the first two decades of the Federation, the annual interest on investment constituted an important source of income from which Ontario benefitted substantially. In addition to the interest on the re-invested surpluses, the Ontario administration collected interest on the pre-Confederation Assets which it brought forward in 1867. Although Quebec disputed the disposition of these Assets, it proved unable to profit from the funds while Ontario collected approximately 137,000 dollars annually in interest payments.⁸⁸

TABLE NO. 3-13
Annual earnings from interest on investments and assets
in Ontario, 1867-1896

<u>ONTARIO:</u>	1867-76	1877-86	1887-96	TOTAL
interest on investments	1,500,000	1,150,000	650,000	3,300,000
interest on pre-Confederation assets	1,370,000	1,370,000	1,370,000	4,110,000
Total	2,870,000	2,520,000	2,020,000	7,410,000

SOURCE: Ontario: Financial Statement of the Honourable A.M. Ross, 13 February, 1890, op. cit., and Financial Statement of the Honourable H.R. Harcourt, 1897, op. cit.

In effect, the province of Quebec could rely on few sources to provide interest income which might be applied to meet ordinary expenditures. This, however, did not discourage the

⁸⁸ For more details on these Assets, see Chapter 6.

provincial administration from renegotiating the 1867 federal arrangements or from seeking compensation for investments which it made in the construction of railways. In both cases, Quebec hoped to create some asset base which might generate annual income. During the 1880's, Quebec lobbied aggressively for a return on the interest payments made to the Federal government on the excess of debt which it paid along with Ontario from 1867 to 1873. Under the Tilley Act of 1873, the Federal authorities accepted responsibility for the 10,000,000 dollar debt and subsequently relieved Quebec and Ontario of nearly 250,000 dollars in annual interest payments. The provinces were reimbursed for the funds which they paid on account of the debt in the early years of the Federation. In the final settlement, Ontario received about 2,850,000 dollars and Quebec obtained approximately 2,500,000 dollars which resulted in an annual interest payment of 140,000 dollars to the former and 130,000 dollars to the latter province.

G. Municipal and Federal Compensation

During the first decade of the Federation, an important source of income for the province of Ontario was derived from the proceeds of the Municipal Loan Fund. While Quebec insisted that the post-Confederation distribution of this fund discriminated in favour of Ontario, the latter province was able to fend off the threat to carrying this asset forward. From 1867 to 1875, the Ontario administration collected

approximately 2,000,000 dollars from this source only to redistribute over 3,000,000 dollars to its municipalities prior to the close of the 1870's. The importance of these transactions is linked to the province's effort to ensure that its municipalities were more fiscally secure.

The province of Quebec did not experience the mutually supportive financial relationship which characterized Ontario's approach to its municipalities. From 1867 to 1880, Quebec collected approximately 50,000 dollars from a Municipal Loan Fund to which the municipalities felt little obligation to reimburse. Certain treasurers attributed the failure of Quebec municipalities to reimburse the proceeds from the Municipal Loan Fund as an act of bad faith. J.G. Robertson alluded to a variety of excuses presented by municipal leaders in order to avoid payment. He referred to the following reactions:

Nous n'avons pas retiré de la dépense de cet argent les avantages que nous en attendions. Le public en général, a plus bénéficié de cet emprunt que nous en avons bénéficié nous-mêmes... Nous sommes pauvres et nous ne pouvons pas payer. Nous avons dépensé notre argent pour des travaux publics d'une utilité générale...⁸⁹

While Robertson recognized that in numerous cases, the payments were too large for the municipalities, he was disappointed over the indifference that existed with regard to

⁸⁹ Discours sur le budget prononcé par l'Honorable J.G. Robertson, Trésorier de la province de Québec, dans l'Assemblée Législative, Québec, 24 mars, 1885, p. 27.

these obligations. The sense that the municipalities had a limited degree of responsibility toward the provincial government regarding financial matters was confirmed by the provincial Liberals in the late 1880's. At that time, Quebec treasurer Joseph Shehyn concluded that:

...the municipalities show just as little willingness to pay these debts as the others they owe the government. Some of them have been impressed with the idea that they will never be called upon to pay off their indebtedness to the Municipal Loan Fund and it takes a good deal of trouble to convince them of the contrary and get them to settle.⁹⁰

Despite the inadequacies of statistical data further research in the area of municipal finance would be useful in contributing to the analysis of the overall financial position of the provinces.

H. Conclusion

While negotiations with the federal government resulted in creating temporary sources of income, they did not significantly change the need for an important increase in revenues and specifically of a more permanent nature. The urgency was not as great in the province of Ontario which managed to balance its budget largely on the basis of the buoyancy of its revenues in the early years of the Federation. During the mid-1880's, J.G. Robertson was not optimistic about

⁹⁰ "Budget Speech" delivered by Honourable Joseph Shehyn, Treasurer of the Province, in the Legislative Assembly of Quebec, on the 14th June, 1888, p. 38.

the possibility of increasing existing revenues which he contended were few and fluctuating. Indeed, in his 1884 budget speech, he expressed the belief that it could not be achieved. He argued that:

...it must be apparent to everyone who is acquainted with our financial position that... it will be exceedingly difficult... to increase our revenue much from the ordinary sources upon which we have hitherto relied.⁹¹

The implementation of direct taxation was perhaps the only recourse available to Quebec to meet its growing expenditures and debt. During the Legislative debates of 1888, a prominent Conservative remarked that: "En 1867, pour éviter l'impôt direct, le Parlement et le peuple auraient pris la très grave détermination de rejeter le projet d'union fédérale".⁹² Ultimately, within fifteen years after Confederation was enacted, the Conservatives introduced direct taxes although to begin with they charged a low rate to the contributors. Recognizing the difficulty associated with increasing revenues, in the mid-1880's, J.G. Robertson proposed his preferred alternative of reducing expenditures. He concluded that:

...lorsque le revenu ne promet pas d'augmenter beaucoup, il est de rigueur que l'on surveille et contrôle avec un soin tout particulier chacun de

⁹¹ Budget Speech by the Honourable J.G. Robertson, Treasurer of the Province of Quebec, delivered in the Legislative Assembly of Quebec, May 2nd, 1884, p. 6.

⁹² Gouin, "Question Actuelle...", op. cit., p. 69.

nos items de dépenses.⁹³

As we shall see in the next chapter, not until the close of the nineteenth century did the provincial Liberals unequivocally heed Robertson's advice.

⁹³ Discours sur le budget prononcé par l'Honorable J.G. Robertson, Trésorier de la province de Québec, Assemblée Législative, Québec, 24 mars, 1885, p. 13.

CHAPTER 4
EXPENDITURE

As noted in the earlier chapters, the study of expenditure patterns has frequently constituted the basis for comparing differential levels of growth in the role of the state between the two major provinces. Much attention has been paid by analysts to the per capita levels of spending in Quebec and Ontario with a view to determining which province was more "progressive" in its behaviour. A number of studies have limited themselves to this approach without placing expenditure within the broader budgetary context.¹ For example, proper consideration has not always been given to a province's prioritization of expenditure. The political and economic constraints on certain types of spending in a given period are often neglected. While the total amount of expenditure is important towards understanding state activity, knowing the way in which the money was allocated is equally critical.

A. Per Capita Estimates

Many analysts suggest that when looking at overall government expenditure, the use of per capita measurement offers a valuable basis for comparison. For the most part, they agree that the individual is the unit through which to assess government service. Observers contend that the volume of service required and the ability to finance government

¹ The most recent example is André Blais and Kenneth McRoberts, "Public Expenditure in Quebec and Ontario...", op. cit.

functions will inevitably rise with an increase in population. Per capita measurement is not without certain flaws. In determining budgetary requirements, population is not always the most important factor to be considered. Some analysts have argued that the use of per capita spending on, for example, agricultural activity may be misleading if the rural population of a given state is not taken into account. With respect to certain functions conducted by the state, expenditure is only partially related to population. This is largely the case for developmental spending where, for example in the case of railways, despite population increases in Ontario, decennial expenditure at the provincial level decreased from 1867 to 1896 (see Table 2). Developmental expenditures are often subject to sudden fluctuations from year to year rendering problematic the use of per capita measurement.² The allocation for public buildings is another example of an item whose per capita ratio would fluctuate from one year to another during certain periods. This was due to the sporadic nature of allocations made to projects given the financial circumstances which prevailed at a given time.

Demographic change gave rise to increasing demands being placed upon governments. In certain sectors, there is an obvious relationship between state spending and population.

² Mark Carter Mills and George W. Starr, Readings in Public Finance and Taxation, New York: The Macmillan Co., 1932, p. 50.

This is true, for example, with respect to the maintenance of Public Institutions where governments generally played the predominant role in the care of the insane. Education presents another area where there is a close relationship between population and state expenditure.³

Both Alexander Galt and George Brown believed that with the Confederation arrangements, the revenues available to the provinces, and in particular the per capita Dominion subsidy, would be sufficient to meet the cost of basic government services. They also considered the "supplementary income", primarily from Crown lands, as more than adequate to meet developmental and social costs. As the provinces evolved both economically and politically, these forecasts proved inaccurate. By the 1880's, the Dominion subsidy allocated on the basis of the 1861 population, was considered insufficient by the Quebec government whose population, like that of Ontario's, increased constantly since Confederation. Near the close of the century, one Quebec treasurer remarked that:

We are, as the age of nations is reckoned, still a young country. Our industries and natural resources are still in their infancy and in the course of our growth, as we develop and expand, it is inevitable that our expenses must increase in proportion to our growth and figures which might to our forefathers seem vast - only represent the natural outlay which the progress of the country

³ Ibid, pp. 48-49.

necessitates...⁴

Both in Quebec and Ontario, expenditures rose at a much faster rate than population. One Ontario politician observed that from 1871 to 1881, while total expenditure increased approximately 80%, the increase in population was only 18.5% over the same period. This trend continued through the end of the century. The disproportionate growth between population and expenditure was extremely pronounced in Quebec when taking into account the extraordinary spending of that province.⁵

TABLE NO. 4-1
Percentage growth of population and
total ordinary and total per capita expenditures for
Quebec and Ontario, 1867-1896

	1867-76 (1871)	Increase of	1877-86 (1881)	Increase of	1887-96 (1891)
Population					
Quebec	1,191,000	(12%)	1,359,000	(10%)	1,488,000
Ontario	1,620,000	(18.5%)	1,926,000	(12%)	2,144,000
Total Expenditure					
Quebec	17,700,000	(70%)	29,400,000	(32%)	40,000,000
Ontario	21,800,000	(40%)	29,300,000	(30%)	38,000,000
Per Capita Expenditure					
Quebec	\$1.48		\$2.16		\$2.68
Ontario	\$1.34		\$1.52		\$1.77
Difference of	\$0.14		\$0.64		\$0.91

SOURCE: Quebec: "Detailed Statement of the disbursements of the Province of Quebec, 1867-1893", Quebec Sessional Papers, 57 Vict., No. 3, 1893 and Budget

⁴ Budget Speech delivered by the Honourable A.W. Atwater, Treasurer of the Province, in the Legislative Assembly of Quebec, December 9th, 1896, p. 4.

⁵ Toronto Daily Mail, January 12, 1883, p. 2.

speech of the Honourable A.W. Atwater, Treasurer of the Province, in the Legislative Assembly of Quebec, 9 December, 1896, p. 40. Ontario: "Report of the Royal Commissioner on the Financial Position of Ontario...", op. cit.

Some politicians in Quebec and Ontario wished to attribute the growth of expenditures to a particular government's extravagance. Upon closer examination of the financial situation of the respective provincial governments from 1867 to 1896, the alleged spending excesses can be traced to a few specific areas of expenditure which accounted in large measure for the overall rise.

An examination of the ordinary expenditures of the two provinces from 1867 to 1896, might give the impression that there were only limited differences in the total spending of the two provinces. Indeed, whereas in the early Federation years, the tremendous gap which emerged in the two provinces overall financial situations was almost entirely the result of Ontario's vastly superior income, from 1877 to 1896, the difference in ordinary revenue was less important than the gap which emerged in the two provinces expenditure, particularly as a result of Quebec's spending on railways and public buildings.

Although the divergence in spending between the two provinces was less important during the first ten years of the Federation, there were dissimilarities in the respective

identification of priorities. When considering the larger population of Ontario at that time, it is clear that on a per capita basis, Quebec spent more than its neighbour in almost all sectors. In the first ten years of the Federation, the most important difference in spending between Quebec and Ontario was on basic government services (administration of justice, legislation and civil government). Approximately \$0.52 per capita was spent in Quebec in this sector while Ontario spent less than \$0.24 per capita. The latter item accounted for more than one-third of Quebec's overall ordinary expenditure while accounting for less than twenty percent of Ontario's total spending from 1867 to 1876. Spending in actual dollars by Quebec for basic government services continued to exceed that of its neighbour through virtually the remainder of the nineteenth century.

The introduction of extraordinary expenditure from the mid-1870's, altered the Quebec budget so as to render more difficult comparisons between the two provinces spending. Nonetheless, certain trends can be identified over the period 1877-1896. In the area of basic government services, the Quebec administration continued to considerably outspend Ontario. Whereas Quebec previously spent more per capita on education, agriculture and colonization, from 1877 to 1896, Ontario's per capita expenditure in these sectors surpassed that of Quebec. The largest difference in ordinary

expenditure between the two provinces emerged in the area of asylums and charities. From 1887 to 1896, per capita spending on these items was more than double that of Quebec (\$0.42 vs. \$0.18 per capita). While asylums and charities accounted for 20 percent of Ontario's overall spending during that period, it represented less than 10 percent of Quebec's total ordinary expenditure.

The most striking phenomenon in ordinary operations which occurred in Quebec from 1877 to 1896 was the dramatic growth in the cost of debt service. By the 1890's, nearly one-third of the total ordinary expenditure and almost \$0.90 per capita was absorbed by this charge. Railways and public buildings were the two branches of expenditure which contributed most to the growth of debt service in the late nineteenth century. While the Ontario administration covered the cost of these items with its ordinary income, the government of Quebec was obliged to borrow in order to meet its commitments.

TABLE NO. 4-2
Total expenditures in Ontario and Quebec
(approximate figures), 1867-1896

<u>Ontario</u>	1867-76	1877-86	1887-96
BASIC GOV'T SERVICES:	3,850,000	5,900,000	7,510,000
JUSTICE	1,800,000	2,900,000	3,940,000
LEGISLATION	900,000	1,300,000	1,320,000
CIVIL GOV'T	1,200,000	1,600,000	2,250,000
EDUCATION:	3,700,000	5,300,000	6,415,000
AGRICULTURE:	730,000	1,260,000	1,580,000
COLONIZATION:	680,000	1,165,000	1,115,000
IMMIGRATION:	240,000	360,000	75,000
PUBLIC INSTITUTIONS MAINTENANCE:	2,100,000	5,500,000	7,640,000
PUBLIC WORKS AND BUILDINGS:	2,200,000	2,900,000	3,610,000
RAILWAYS	1,700,000	2,700,000	2,400,000
<u>TOTAL:</u>	<u>\$21,800,000*</u>	<u>\$29,400,000</u>	<u>\$38,000,000</u>

* From 1867-1876, Ontario distributed approximately 3,000,000 dollars to its municipalities from ordinary expenditures. As this sum was practically offset by income from the municipal loan fund and since Quebec had no equivalent expenditure, we have excluded this figure from ordinary expenditures.

<u>Quebec</u>	1867-76	1877-86	1887-96
BASIC GOV'T SERVICES:	6,230,000	7,600,000	10,240,000
JUSTICE	3,340,000	3,800,000	5,450,000
LEGISLATION	1,540,000	2,000,000	2,350,000
CIVIL GOV'T	1,350,000	1,800,000	2,440,000
EDUCATION:	2,900,000	3,400,000	3,900,000
AGRICULTURE:	560,000	770,000	1,290,000
COLONIZATION:	1,070,000	725,000	1,140,000
IMMIGRATION:	240,000		
ASYLUMS AND CHARITIES:	1,200,000	2,200,000	2,700,000
PUBLIC WORKS AND BUILDINGS: Ordinary	1,200,000	950,000	2,800,000
Extraordinary		1,000,000	3,300,000
DEBT SERVICE:	330,000	7,000,000	13,000,000
<u>TOTAL: (ord. exp.)</u>	<u>\$17,600,000</u>	<u>\$30,400,000</u>	<u>\$40,000,000</u>
EXTRAORDINARY EXPENDITURES:			
RAILWAYS:			
Extraordinary	2,715,000	13,460,000	7,700,000
Quebec, Montreal, Ottawa & Occidental Railway:	1,975,000	11,170,000	200,000
General Subsidies:	740,000	2,290,000	7,500,000
<u>GRAND TOTAL ORDINARY AND EXTRAORDINARY</u>	<u>\$20,415,000</u>	<u>\$42,860,000</u>	<u>\$47,700,000</u>

SOURCES: Quebec: "Detailed Statement of the disbursements..., 1867 to 1893" op. cit. and Budget Speech, A.W. Atwater, 9th December, 1896, op. cit.
 Ontario: Financial Statement, A.M. Ross, 13th February, 1890, op. cit. and Financial Statement, Honourable R. Harcourt, 1897, op. cit.

TABLE NO. 4-3
Average annual expenditure and per capita spending
Quebec and Ontario 1867-1896

	1867-76	1877-86	1887-96
Based on			
population			
of:	1871	1881	1891
	Ann. Av. (P.C.)	Ann. Av. (P.C.)	Ann. Av. (P.C.)
BASIC GOV'T			
SERVICES:			
Quebec	623,000 (\$0.52)	760,000 (\$0.56)	1,020,000 (\$0.685)
Ontario	385,000 (\$0.24)	590,000 (\$0.31)	750,000 (\$0.35)
EDUCATION:			
Quebec	290,000 (\$0.24)	340,000 (\$0.25)	390,000 (\$0.26)
Ontario	370,000 (\$0.23)	530,000 (\$0.27)	640,000 (\$0.30)
AGRICULTURE AND			
COLONIZATION:			
Quebec	180,000 (\$0.15)	150,000 (\$0.11)	
Ontario	200,000 (\$0.12)	280,000 (\$0.14)	280,000 (\$0.13)
ASYLUMS AND			
CHARITIES:			
Quebec	120,000 (\$0.10)	220,000 (\$0.16)	270,000 (\$0.18)
Ontario	250,000 (\$0.15)	630,000 (\$0.33)	910,000 (\$0.42)
PUBLIC BUILDINGS AND			
PUBLIC WORKS:			
Quebec	120,000 (\$0.10)	200,000 (\$0.15)	600,000 (\$0.40)
Ontario	220,000 (\$0.13)	290,000 (\$0.15)	600,000 (\$0.29)
DEBT SERVICE:			
Quebec		700,000 (\$0.51)	1,300,000 (\$0.87)
Ontario		nil	nil
RAILWAYS:			
Quebec			
(Ex. Ord.)	640,000 (0.53)	1,340,000 (0.97)	770,000 (\$0.52)
Ontario			
(ord.)	340,000 (0.21)	270,000 (0.14)	204,000 (\$0.12)
SOURCE:			
Quebec: "Detailed Statement of the			
disbursements..., 1867 to 1893", <u>op. cit.</u> , and			
Budget Speech, 9th December, 1896, <u>op. cit.</u>			
Ontario: Financial Statement, A.M. Ross, 13			
February, 1890, <u>op. cit.</u> , and Financial Statement,			
Honourable R. Harcourt, 1897, <u>op. cit.</u>			

TABLE NO. 4-4
Major expenditures as a percentage of total ordinary spending,
Quebec and Ontario, 1867-1896

	1867-76	1877-86	1887-96
Basic Government Services			
Quebec	28.5%	25.8%	25.0%
Ontario	17.6%	20.0%	19.7%
Education			
Quebec	16.3%	11.5%	10.0%
Ontario	16.9%	18.0%	16.8%
Agriculture and Colonization			
Quebec	9.3%	5.0%	6.2%
Ontario	10.9%	10.4%	7.3%
Asylums and Charities			
Quebec	14.7%	13.3%	14.8%
Ontario	11.4%	21.7%	24.0%
Public Works and Buildings			
Quebec	7.0%	3.0%	7.0%
Ontario	10.0%	10.0%	9.5%
Debt Service			
Quebec	20.0%	23.8%	33.0%
Ontario	nil	nil	nil
Railways			
Quebec			
Ontario	5.0%	9.0%	6.8%

SOURCE: Quebec: "Detailed Statement of the disbursements..., 1867 to 1893", op. cit., and Budget Speech, 9th December, 1896, op. cit.
 Ontario: Financial Statement, A.M. Ross, 13 February, 1890, op. cit., and Financial Statement, Honourable R. Harcourt, 1897, op. cit.

B. Classification of Expenditures

Provincial treasurers employed different methods of classifying expenditures. Most treasurers distinguished

between what was considered developmental or economic spending versus social expenditures. The former generally included agriculture and colonization, public buildings and public works and railways while the social costs were associated with education, the maintenance of asylums and reformatories and to a certain extent, basic government services. As the population of urban centres rose continually, there were often shifts in the balance between developmental/economic and social costs.

Another system of classification distinguished between what were considered obligatory and imperative expenditures. The obligatory (or inelastic) costs were associated with the basic services provided by government where over time variations in spending were more stable. The imperative (or elastic) charges provided the possibility for greater flexibility in spending through either swift increases or cutbacks. While these included most developmental and social costs, it should be noted that in the case of special projects, e.g. railways and public buildings, long-term commitments on the part of government were often legally binding and debt service was therefore difficult to reduce.⁶ Numerous treasurers believed that the growth of population made inevitable increases to certain expenditures. Still, when it was considered essential, provincial governments seemed capable of applying

⁶ Toronto Daily Mail, December 7, 1878, p. 6.

spending cuts to virtually any area of expenditure. Spending reductions were generally justified by economic constraints and/or by political considerations.

By far the most popular classification of expenditure among Quebec treasurers was the distinction made between ordinary and extraordinary spending. With the introduction of massive railway financing by Quebec in the mid-1870's, the province created separate statements to treat such spending. To describe these operations, the terms extraordinary, capital and special expenditure were used interchangeably by Quebec provincial treasurers through much of the late nineteenth century.

The transfer of railway financing and the allocation for certain public buildings away from ordinary expenditure gave rise to an intense political debate within the province. Conservative treasurer J.G. Robertson considered the use of capital expenditure as a logical step given that railways as well as public buildings contributed to expanding the province's asset base. In his 1884 budget speech, Robertson stated that the only way to understand how the province was progressing from year to year was to exclude loans and extraordinary expenditures from the ordinary budget.⁷

⁷ Budget Speech by the Honourable J.G. Robertson, Treasurer of the Province, delivered in the Legislative Assembly, Quebec, May 2nd, 1884, p. 8.

Still, some observers of the period charged that the Quebec population was being misled by the provincial government's confusing the ordinary with the extraordinary expenditure. The provincial Liberal opposition repeatedly criticized the Conservatives who they insisted were trying to conceal Quebec's mounting debt through the use of capital expenditures. Ironically, when they entered office in the late 1880's not only did the provincial Liberals fail to abolish the practice, they were the first to extend this procedure to include certain charges on Public buildings.⁸

When in opposition, the provincial Conservatives focused on what they perceived to be the Mercier administration's abuse of capital or extraordinary operations. Liberal treasurer Joseph Shehyn accused the Conservatives of hypocrisy since it was they who had originally created the distinction. The treasurer noted that the legitimacy of such budgetary operations was "...the doctrine maintained by our adversaries when in power, but now that they are in Opposition it suits them to forget their past principles".⁹ Shehyn maintained that the debts amassed by the Conservatives were the main

⁸ Budget Speech by the Honourable Joseph Shehyn, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, April 12th, 1887, p. 5. See also exchange between Robertson and Shehyn on "the Provincial Finances" in DALQ, 1887, pp. 1262-1265.

⁹ Budget Speech by the Honourable Joseph Shehyn, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, December 5th, 1890, p. 15.

factor contributing to the continued use of special budgets. Putting aside the partisan dispute, it would seem evident that both provincial Conservatives and Liberals agreed on the need for such a budgetary distinction and whatever disagreement may have existed between them stemmed from the classification of certain items (e.g. Public buildings). Politicians noted that the removal of capital expenditures from the ordinary operations was accepted by most nineteenth century economists and that numerous countries had employed such a fiscal practice. In December 1890, Joseph Shehyn concluded that:

...it matters little what you call an expenditure when it has been properly sanctioned. In fact, the distinction becomes perfectly legitimate when the House had been informed that certain expenses are chargeable to capital. If the House considers that those appropriations are in the public interest and makes them with a full knowledge of what it is about, it is quite competent for it to do so.¹⁰

From 1867 to 1896, Quebec's use of ordinary and extraordinary budgets had no equivalent in Ontario. During that period, the latter province had no debt financing to deal with and in fact, at the outset of the Federation, its special budgetary operations were the result of the distribution of its accumulated cash surpluses. The possible exception to this was Ontario's temporary use of Annuities in the mid-1880's, whereby certain railway payments were extended over a period of years. After much debate, these annuities were eventually

¹⁰ Ibid.

classified with the province's liabilities.¹¹ Ontario financed the bulk of its railway commitments and settled its municipal debts with ordinary revenues. As Quebec employed special statements to finance expenditure which Ontario covered through its regular budget, comparisons between the two provinces based solely on ordinary operations were awkward. From the mid-1870's to 1896, the province of Quebec classified nearly 30,000,000 dollars of expenditure as extraordinary operations.

In that which follows, we will examine the evolution of the principal expenditures of the two provinces and attempt to account for the differences in spending.

C. Basic Government Services

From Confederation to the close of the century, the cost of basic government services (legislation, civil government and the administration of justice) assumed a much larger proportion of Quebec's overall expenditure than it did that of the province of Ontario. The Dominion subsidy was originally designed to cover the total outlay for basic government services as the belief prevailed that the cost would largely be determined on the basis of population. Nonetheless, while

¹¹ Financial Statement of the Honourable George W. Ross, Treasurer of the Province, delivered on the 8th March, 1900, in the Legislative Assembly of Ontario, Toronto: Warwick Bros and Rutter, 1900, p. 35. For more details on the use of annuities, see Chapter 6.

Ontario collected a slightly greater sum from the Dominion subsidy, it is clear that Quebec spent a considerably greater amount annually for government services than its neighbour.

TABLE NO. 4-5
Expenditures on basic government services
Quebec and Ontario, 1867-1896

	Ontario	Quebec
1867-1876	3 850 000	6 240 000
1877-1886	5 900 000	7 600 000
1887-1896	<u>7 500 000</u>	<u>10 260 000</u>
TOTAL	<u>17 250 000</u>	<u>24 100 000</u>

SOURCE: Quebec: "Detailed Statement of the disbursements... 1867 to 1893" op. cit., and Budget Speech, A.M. Atwater, 9th December, 1896, op. cit. Ontario: Financial Statement, A.M. Ross, 13 February, 1890, op. cit., and Financial Statement, H.R. Harcourt, 1897, op. cit.

From 1867 until the early 1880's, expenditure on the administration of justice was the province of Quebec's single largest outlay only to be surpassed by the growing annual interest on the province's public debt. Contemporary accounts of state activity within Quebec often suggest that historically, the province gave high priority to the administration of justice. In his study of the Quebec administration, c. 1867-1900, James Iain Gow suggests that aside from the policing function, the Quebec state placed significant emphasis on developing its system of justice.¹² Throughout much of the nineteenth century, Ontario treasurers generally attributed Quebec's larger outlay for basic

¹² James Iain Gow, "L'administration québécoise de 1867 à 1900..." op. cit., p. 557.

government services to extravagance on the part of that province's administrators. Following Confederation, this was a charge to which Quebec treasurers were frequently obliged to respond. Several explanations have been offered to account for Quebec's significantly higher costs for the administration of justice relative to that of its neighbour. The major reason according to Quebec treasurers was the relative incapacity of Quebec's municipalities to assume substantial costs for the administration of justice. This was illustrated by Quebec treasurer Levi Ruggles Church when in the year 1877 he noted that:

...Ontario ne contribue pas beaucoup plus que 30 pour 100 de coût de l'administration de la justice dans cette province sur le fond locaux tandis que Québec fournit 95 pour 100. C'est tout simplement une économie pour l'Ontario de 2 500 000 depuis la Confédération [1867-1877]. Quelqu'un pourrait-il m'expliquer pourquoi l'Ontario est plus riche que le Québec? N'est-ce pas que les municipalités y contribuent beaucoup plus pour l'administration de la justice? Et l'on parle de taxe directe à Québec! Mais n'est-ce pas une taxe directe que l'Ontario paie pour cette administration de la justice, taxe dont Québec est exempté?¹³

At the time, Quebec's treasurer concluded that if the residents of the province wished to accept some of the burdens borne by Ontario municipal taxpayers, it might improve his administration's ability to reduce the cost of government services. It should not be overlooked, however, that Quebec collected virtually all revenues from licenses and law stamps.

¹³ Discours sur le budget de l'Honorable L.R. Church, Trésorier de la province de Québec, in Marcel Hamelin edit., DALQ, session de 1877-1878, p. 111.

These were sources of income from which municipalities of Ontario unlike their Quebec counterparts were able to benefit to a very significant extent.

Ontario treasurers pointed on numerous occasions to the degree which their municipalities were more fiscally supportive than those of Quebec in the areas of administration of justice and legislation. In 1871, Ontario treasurer Alexander Mackenzie noted that per capita spending on legislation and justice was 12.5 cents per head in his province, while those same services cost 31 cents per head for Quebec residents. Therefore, it was not surprising for Quebec treasurer, J.G. Robertson to conclude that:

It should, however, be kept in mind that a large portion of what is paid in this province direct from the public treasury, is in Ontario and the United States paid from local taxation through municipal councils and other bodies, and as soon as municipalities are prepared to assume a share of the expenses of the administration of justice from local funds, this portion of our expenditure may be reduced.¹⁴

It was widely recognized that the Quebec provincial government assumed much more of the fiscal as well as the administrative responsibility for local courts and justice. Ontario treasurer Mackenzie pointed out that his province provided its municipalities with significantly greater authority in this area. In his reflections on the differential costs for the

¹⁴ Discours sur le budget de l'Honorable J.G. Robertson, Trésorier de la province, le 24 novembre 1871, in DALQ, session de 1871-1872, p. 94.

administration of justice, Lomer Gouin explained that "cela est dû en partie, sans doute, aux décentralisations judiciaires effectives chez nos voisins...".¹⁵

It is useful to consider the costs of legislation, civil government and the administration of justice on a separate basis in order to better understand the differences in total cost between Quebec and Ontario for the respective items.

TABLE NO. 4-6
Individual expenditure on justice, legislation and
Civil Government for
Ontario and Quebec, 1867-1896

	1867-76	1877-86	1887-96
JUSTICE			
Ontario	1,800,000	2,900,000	3,940,000
Quebec	3,340,000	3,800,000	5,450,000
LEGISLATION			
Ontario	900,000	1,300,000	1,320,000
Quebec	1,540,000	2,000,000	2,350,000
CIVIL GOVERNMENT			
Ontario	1,200,000	1,600,000	2,250,000
Quebec	1,350,000	1,800,000	2,440,000

SOURCE: Quebec: "Detailed Statement of the disbursements... 1867 to 1893" op. cit. and Budget Speech, A.W. Atwater, 9th December, 1896, op. cit. Ontario: Financial Statement, A.M. Ross, 13th February, 1890, op. cit. and Financial Statement, Honourable R. Harcourt, 1897, op. cit.

With respect to the budget for legislation, in the early twentieth century, Lomer Gouin concluded "Soustrayons le budget...du conseil législatif et les frais découlant pour notre province de l'emploi obligatoire des deux langues, et

¹⁵ Lomer Gouin, op. cit., p. 36.

nous tombons derrière la province voisine".¹⁶ When in opposition, the provincial Liberals campaigned for the abolition of the Legislative Council which they considered an unnecessary burden on the Quebec administration. Nonetheless, when they achieved power in the late 1880's, the Liberals did not act upon this objective. The Conservatives were also sensitive to the perception that this governmental body was too costly. During the 1880 provincial election campaign, the leader of the Conservatives remarked that: "La grande objection des libéraux est que ce corps est trop coûteux. Il y a moyen de réduire ses dépenses; le Conseil a déjà pris l'initiative dans cette direction, et je n'ai pas de doute que cette réforme se continuera".¹⁷ In Ontario as well, treasurers viewed the two chambers as an unnecessary extravagance and suggested that Quebec's abolition of the Council was a necessary economy. By removing the yearly cost of Quebec's Legislative Council (approximately 35,000 dollars annually), the difference in the two provinces' overall spending on legislation was negligible.¹⁸

An important consideration, frequently mentioned by Quebec administrators, was the cost of performing the functions of

¹⁶ Ibid, p. 35.

¹⁷ Roy, op. cit., p. 44.

¹⁸ Financial Statement of the Honourable A.M. Ross, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, Ontario, February 21, 1884, p. 33.

government in two languages. Quebec treasurer J.G. Robertson described this additional charge as follows:

...the necessity of keeping up two languages in all of our proceedings, involving the employment of educated men as translators, the printing in both languages of all our public documents...more than doubling the expenses of most of our proceedings over what the other provinces have to incur. This is frequently overlooked in comparing our expenditure with that of other provinces, and injustice is done us in such comparisons because our peculiar position is not remembered with respect to the extra unavoidable expenses...¹⁹

During the last two decades of the nineteenth century Quebec treasurers often made reference to the need for increased spending on the administration of justice. They pointed out that the increases in criminal activity within the province during that time resulted in inevitable increases in this branch of government service. They also noted, however, that it was vital to find some way to reduce these costs, and suggested that the expense for criminal justice should be subsidized by the Dominion government in as much as it was responsible for the enforcement of these laws. This, despite the fact that the administration of criminal justice was given to the local authorities by the Confederation Act. Quebec treasurers believed that it was more appropriate for the Dominion to pay for the administration of its own criminal law, or else make compensation to the province for what it had spent in previous years on this service and provide for its

¹⁹ Budget Speech, May 2nd, 1884, Quebec, op. cit., p. 13.

continued cost.²⁰ According to treasurer J.G. Robertson, in the mid-1880's, the federal government gave consideration to these claims. He noted that:

From some hints which fell from some members from the Privy Council in Ottawa, I am in hopes that we shall be relieved from the burden or compensation will be made to us, so as to assist in the administration of criminal law. If no assistance should be rendered by the Dominion government, it may hereafter become a question of necessity with us whether we must not resort to the same plan adopted by, I believe, all our sister provinces, to place a larger share of the criminal justice upon the municipal authorities than is now done, in order to relieve the provincial authorities from bearing, I may say, the whole of such expense as at the present in the case. In the meantime, I hope this will not be necessary.²¹

Ultimately, however, the claims made by Quebec in this regard were rejected by the federal authorities. By the early 1880's, Quebec treasurers made efforts to cut back on the costs associated with the administration of justice as perhaps a signal both to municipalities and federal authorities that action would be adopted to reduce the total outlay for government services if no compensation were forthcoming. Thus, in the mid-1880's, while the Quebec government attempted to reduce most expenditures, it proceeded to cut costs for basic government services, primarily for civil government and the administration of justice. Indeed, in J.G. Robertson's

²⁰ *Ibid*, pp. 46-47. See also Budget Speech delivered by the Honourable Joseph Shehyn, Treasurer of the Province, in the Legislative Assembly of Quebec on the 15th February, 1889, p. 16.

²¹ *Ibid*, p. 25.

last two fiscal years as treasurer, 1885 and 1886, Quebec's spending on Justice, generally far greater than that of Ontario, was reduced to nearly the same amount as that of its neighbour. In those two years, the entire cost of government services was only ten percent larger in Quebec than Ontario, a drastic reduction from the annual average gap which existed between the two provinces throughout most of the post-Confederation period.

The resolve to cut spending of these items appeared, however, to be rather short-lived. Following Robertson's departure, the costs of government under the new administration of Premier Honoré Mercier returned to their previous levels, and by the close of the decade, new spending heights in this sector were once again attained. This was particularly true for the cost of legislation which rose from its low point for the 1880's of approximately 180,000 dollars to more than 300,000 dollars during the 1890's. Similarly, costs associated with the administration of justice climbed from their 1885 low of approximately 350 000 dollars to rise well above 500 000 dollars during the 1890's.

D. Social Mission

(1) introduction

While Quebec spent considerably greater sums on basic government services from 1867 to 1896, both in actual dollars

and as a percentage of its overall budget than Ontario, the latter contributed much larger sums to the social mission over the same period. Expenditures associated with the social mission consisted primarily of the maintenance of Public institutions or, what were referred to in Quebec as lunatic asylums and reformatories. The cost of hospitals and charitable endeavours constituted a smaller but still important contribution to the social mission.

The assigning of responsibility for the social mission to the provinces under the 1867 agreement is considered by some to have been a logical outcome of the pre-Confederation experience in this area. In the case of Ontario, historian Richard B. Splane argues that the terms of the BNA Act with respect to social welfare conformed to the provincial leaders "special interest" in these matters.²² Splane's belief that "rapid progress" characterized Ontario's post-Confederation experience in social welfare is a view questioned by some observers. In his study of the condition of the working class in Toronto at the turn of the century, historian Michael Piva contends that provincial and municipal governments failed to fulfil their responsibility for charitable relief.²³

²² Richard B. Splane, Social Welfare in Ontario, 1791-1893: A Study of Public Welfare Administration, Toronto: University of Toronto Press, 1965, p. 280 and pp. 41-43.

²³ Michael Piva, The Condition of the Working Class in Toronto, 1900-1921, Ottawa: University of Ottawa Press, 1979, pp. 61-62.

Nonetheless, Piva's observations are inadequately situated within the larger North American realm of activity in the area of social welfare. During the late nineteenth century, officials of the Ontario government produced favourable comparisons with other North American administrations in terms of spending on the social mission. Towards the close of the century, an Ontario politician remarked that: "In its charities, Toronto stands in the first rank of Canadian and American cities".²⁴

Through much of the nineteenth century, the role of government in the social mission was largely confined to financially supporting initiatives that were being pursued by private authorities and generally undertaken by the clergy. The dispensing of charity was believed to be a religious function where government played a complimentary role.²⁵ Ideological considerations affected the organization of charitable efforts as the Roman Catholic clergy more so than its Protestant counterpart felt that the state should be subordinate to the Church in this domain.²⁶ This resulted in part in a dissimilar approach to charity in Quebec and Ontario where the

²⁴ Stephen A. Speisman, "Munificent Parsons and Municipal Parsimony: Voluntary vs. Public Poor Relief in Nineteenth Century Toronto" in Michael Piva ed. A History of Ontario, Toronto: Copp Clark Pitman, 1988, p. 61.

²⁵ Ibid, p. 55.

²⁶ Splane, op. cit., p. 40.

clergy was more active in the former province. Therefore, Quebec administrators often referred to the missionary zeal of the Roman Catholic Church to justify considerably lower expenditures than Ontario in the post-Confederation period.²⁷ With perhaps slight differences in intensity, clerical authorities in both Quebec and Ontario looked to provincial governments for financial assistance.

The relative financial capacity of the private and government sector in the two provinces at a given time had an important impact on the degree and quality of service extended to the population. The private/clerical authorities in Quebec welcomed financial help from government while resisting strict supervision of their affairs. When in the 1870's, Ontario introduced a comprehensive program of aid to charitable institutions, it obliged the private authorities to accept rigorous standards as a condition for subsidization. The financial position of Ontario during that period allowed it to exercise greater influence in this field.

Apart from employing its surplus funds toward railway aid and municipal relief, the Mowat administration embarked upon an important legislative initiative to reinforce charitable pursuits. In 1874, the government passed the Charity Aid Act which was aimed at the distribution of public funds in aid of

²⁷ Gouin, "Question Actuelle...", op. cit., p. 42.

charitable institutions based upon a "properly arranged and equitable system".²⁸ A strategy similar to that adopted for railway development was applied to charitable organizations as the Act proposed that municipal and other corporations, as well as private individuals, should be stimulated and encouraged to give liberal support to such benevolent institutions.²⁹

The Mowat government attempted to confine its assistance to "bona-fide" charitable initiatives and therefore, put an inspection process into place which called for the suspension of aid if an institution failed to meet certain criteria. In exchange for its aid the government insisted on a decisive measure of control over the internal policies of private institutions. Indeed, revisions to the Charity Aid Act in both 1877 and 1887 reinforced the administration's authority in this regard.³⁰ The Ontario government's intervention in the social mission was in sharp contrast with the practices of the Quebec administration of the last three decades of the nineteenth century. While the Roman Catholic Church and other Quebec clergy had no quarrel with receiving grants from the provincial government, they objected to supervision by administrators as a condition for funding. Not until 1921 did

²⁸ Splane, op. cit., p. 60.

²⁹ Ibid.

³⁰ Ibid., p. 62.

the Quebec government introduce legislation dealing with private charitable initiatives.³¹

In his study of the evolution of social assistance in Quebec, Serge Mongeau argues that the 1867 Constitution had no impact on the attitude of provincial authorities with regard to charity. He believed that Quebec governments of the latter part of the nineteenth century sought as much as possible to transfer responsibility for social assistance to the municipalities. According to Mongeau, with the 1871 Municipal Code, the provincial Conservative government discreetly attempted to shift the burden for supporting charitable institutions on to municipalities without either changing existing structures or providing supplementary financial aid to local governments. Moreover, while the regulations under the Municipal Code conferred certain rights upon the municipalities, they were in no way obliged to provide assistance.³² Under these circumstances, the private sector through both clerical and lay leadership held a virtual monopoly on the distribution of charity.

Although provincial spending on hospitals and charities did not constitute a significant percentage of overall spending on

³¹ Serge Mongeau, Evolution de l'assistance au Québec: Une étude historique des diverses modalités d'assistance au Québec, Montreal: Editions du Jour, 1967, pp. 35-36.

³² Ibid.

the social mission, it was still considered an important item from a political standpoint. In their book Droit et pauvreté au Québec, Jean Hetu and Herbert Marx wonder whether the role of the state in the area of social assistance has been underestimated by most analysts? The authors conclude that:

...s'il est vrai que c'est sur l'initiative individuelle, familiale et communautaire qu'a reposé principalement pendant plus de trois siècles le système d'aide sociale du Québec, l'initiative gouvernementale a été certes beaucoup plus importante qu'on a pu généralement laisser croire.³³

From Confederation to the mid-1870's, Quebec's expenditure on hospitals and charities matched that of Ontario in actual dollars and consequently, the former province's spending was greater than its neighbour's when examined on a per capita basis.

TABLE NO. 4-7
Decennial expenditures on hospitals and charities,
Quebec and Ontario, 1867-1896 (rounded figures)

	1867-1876	1877-1886	1887-1896
Quebec	41,700	46,400	47,700
Ontario	41,100	81,000	148,000

Source: Quebec: "Detailed Statement of the disbursements... 1867-1893", op. cit., and Budget Speech, A.W. Atwater, 9th December, 1896, op. cit. Ontario: Financial Statement, Honourable A.M. Ross, 13th February, 1890, op. cit., and Financial Statement, Honourable R. Harcourt, 1897, op. cit.

With the introduction of the Charity Aid Act in 1874, the

³³ Jean Hetu et Herbert Marx, Droit et pauvreté au Québec: documents, notes et problèmes, Montréal: les éditions Thémis, 1975.

province of Ontario increasingly outspent Quebec in this sector over the last quarter of the nineteenth century. While in 1891 Ontario contributed nearly 200,000 dollars to charitable initiatives, at the same time, the province of Quebec had not significantly increased its allocations from the early Federation years.

Despite the limited allocation provided by Quebec from 1877 to 1896 (generally fluctuating around 50,000 dollars per year) fixing the amount was at times a source of great controversy. The provincial Conservatives believed that with the need for retrenchment in the 1880's, private charitable institutions could not substantially rely on government for funding. Consequently, during the mid-1880's, charities were cut by 10 percent per annum dropping from approximately 50,000 dollars to 35,000 dollars, between 1884 and 1886. With the election of the Mercier administration in 1886, the amount of this expenditure was returned to its earlier level. With regard to the practice of the Conservatives in this area, in 1890 Premier Honoré Mercier remarked that:

During their fit of economy, they began by retrenching 10 per cent every year from the appropriations for charities...take 10 per cent annually from a grant and, if I calculate rightly, at the end of ten years, the entire grant will have been eaten up? When we came into power, we stopped this reduction; we not only did that, but we went further, and increased a host of these grants; we

even gave new ones...³⁴

Mercier pointed out that members of the Conservative opposition frequently requested that the government make contributions to certain charitable institutions. This, he believed, placed the Conservatives in a difficult position insofar as potential charges of extravagance directed at the government were concerned. When, however, the Conservatives returned to power in the early 1890's, they once again applied spending cuts to charitable institutions. While this was being done in Quebec, we observed that the province of Ontario raised its allocations in this sector.

(ii) Public institutions or lunatic asylums

At the beginning of the Confederation period, Ontario's annual spending on Asylums was double that of its neighbour. Towards the end of the 1870's, however, the two provinces' contributions to this source evolved considerably. Whereas between 1877 and 1886 Quebec increased its allocations for Public institutions from approximately 200 000 dollars to 250 000 dollars, the Ontario administration raised similar expenditures from slightly below 300 000 dollars to well over 600 000 dollars. For the remainder of the nineteenth century, the spending gap on the social mission continued to widen.

³⁴ Speech delivered by the Honourable Honoré Mercier, Prime Minister of the Province, in the Legislative Assembly of Quebec, on the 11th December, 1890, p. 43.

TABLE NO. 4-8
Actual and per capita expenditures associated with
the social mission (asylums and charities)
Quebec and Ontario, 1867-1896

	1867-76	1877-86	1887-96
QUEBEC	1,200,000 (\$0.10)	2,200,000 (\$0.16)	2,700,000 (\$0.18)
ONTARIO	2,500,000 (\$0.15)	6,300,000 (\$0.33)	9,100,000 (\$0.42)

SOURCE: Quebec: "Detailed Statement of the disbursements... 1867-1893" op. cit. and Budget Speech, A.W. Atwater, 9th December, 1896, op. cit. Ontario: Financial Statement, Honourable A.M. Ross, 13th February, 1890, op. cit., and Financial Statement, Honourable R. Harcourt, 1897, op. cit.

In the year 1880, treasurer J.G. Robertson claimed that spending on lunatic asylums had become a serious drain upon the resources of the province, and he looked for assistance from private charitable and welfare organizations to compensate for the amounts which the Quebec government was able to allocate.³⁵ By the year 1881, the expenditures for maintenance of these institutions emerged as the Ontario administration's largest single annual outlay.

Numerous considerations went into the overall costs of Public institutions. For example, by not knowing the total number of insane in either prisons or under private supervision, overall comparisons of provincial costs for the care of such persons

³⁵ Budget Speech of the Honourable J.G. Robertson, Treasurer of the Province, in the Legislative Assembly of Quebec, June 16th, 1880, p. 27.

were rendered difficult. Still, certain important observations can be made. First, during the period 1867 to 1896, while the Ontario government had three large facilities for the care of the insane, Quebec sent the overwhelming majority of its patients to one very large institution in the town of Beauport. Also, it is noteworthy that Quebec had much fewer patients under its care than did the province of Ontario, according to statistics available during the period.³⁶

In the late 1880's the Quebec government established a Royal Commission to look into the condition of the lunatic asylums of the province. The Commissioners were instructed to propose such reforms as they deemed necessary in order to modify the existing system and to ascertain whether the asylums of the province of Quebec were kept on as good a footing as those of Ontario and the United States.³⁷ Clearly, some believed that the major difference in spending between the two provinces in this sector required some explanation.

The Commissioners recognized that many Quebecers believed that few changes were needed to the province's asylums as it was

³⁶ Report on the Maintenance of Public Institutions in Ontario Sessional Papers, no. 2, 36 Victoria, A. 1872-1873, p. 18.

³⁷ Report of the Royal Commission on Lunatic Asylums of the Province of Quebec, 1888, in Quebec Sessional Papers, (no. 87), 51-52 Victoria, A.D. 1888, p. 6.

held that they had kept up with the times and followed the immense progress that had been made by science. The Royal Commission rejected such an optimistic assessment and insisted that anyone who compared what was being done in Quebec with that which was being done elsewhere could not avoid the conclusion that the province was behind in several important areas. In the province of Quebec, the care of the insane was farmed out to private individuals and to private corporations. The Commissioners noted that this system was almost altogether abandoned by governments which preferred to undertake the care of the insane themselves and to confide the administration of their asylums to competent and disinterested persons. On this subject, the Medico-Surgical Society of Montreal expressed the following view in its 1886 report:

(1) That the farming out of the care of lunatics, either to private individuals or to private corporations is practically everywhere abandoned because it is prejudicial to the best interests of the insane and gives the minimum of cures.

(2) That all the establishments intended for the treatment of the insane should be owned, managed by and under the direct control, and supervision of the Government, without the intermediary of interested persons.³⁸

In Ontario, the asylums were controlled almost entirely by the government and were supervised by provincial officials during the late nineteenth century. With only a few exceptions, the same was true for the United States. According to the Commissioners, one of the great inconveniences of the system

³⁸ Ibid, p. 52.

of farming out, as it existed in the province of Quebec, was that in the contracts made with the owners of the asylums, it was unclear as to the respective rights and obligations of both the government and of the proprietors. This was considered a particular problem with reference to the management of these institutions and the treatment they provided.³⁹

Some suggested that the system of farming out lessened the government's cost for the support of the insane. The Commissioners disagreed with this assessment. They concluded that:

...this pretention is not born out by experience which shows that if, in taking into its own hands the management of the asylums, the government spends little more than under the farming system, this apparent extra expense is more than compensated for by the patients and the greater efficiency of the treatment...⁴⁰

The Commissioners evaluated those Public institutions where Quebec farmed out the majority of its patients notably in the asylums at Beauport and Saint-Jean-de-Dieu. In the case of the former institution, they discovered conditions were characterized by insufficiency and inefficiency of medical service, overcrowding, an almost total absence of moral and physical treatment of the insane (e.g. one doctor served 900 patients). While the service was not as inefficient and

³⁹ Ibid, p. 51.

⁴⁰ Ibid.

incomplete as that of Beauport (one doctor for 600 patients), the asylum at Saint-Jean-de-Dieu was far behind similar institutions in the United States and Ontario where, as a general rule, there was one doctor for every 200 to 300 patients. In the case of the Beauport Asylum, the Commissioners recommended that:

The proprietors of this Asylum, not having,... fulfilled the conditions of their contract, the sole alternative left is the...cancellation of their contract. Should the finances of the province permit of it, the Government might, under the circumstances, acquire this property and hand it over to some religious community which would be under the absolute control of the medical board.⁴¹

Upon assessing the measures proposed by the Commissioners, the government of Quebec maintained that they took the findings of the report seriously. While certain politicians liked to boast that the province more than doubled its expenditure in this area over the first two decades of the Federation, this change seemed paltry both from the standpoint of the rate of increase in Ontario and as a percentage of the growing number of patients in the institutions. In his 1889 budget speech, Quebec treasurer Shehyn, stressed the importance of the enquiry to the province given the urgent necessity to fully examine the condition of the insane. In 1889, Shehyn concluded that: "with the increase of our population, the increase of this item is sure to go on, and its burden will annually become heavier and heavier upon the Government of the

⁴¹ Ibid. p. 81.

province, unless some means more successful than any that have been yet tried can be found to alienate it".⁴² Despite the conclusions of the report, the government provided only a very slight increase in funds to the institutions for the insane. Moreover, by the 1890's, during the period of spending cuts, expenditure on asylums was reduced.

The comparisons between Quebec and Ontario with regard to the treatment of the insane and its relationship to the broader question of the pursuit of the social mission were frequently invoked by provincial politicians. By the 1890's, the province of Ontario spent nearly three times the amount that its Quebec counterpart did on public institutions and other costs associated with the social mission. It is difficult to assess all the reasons for Ontario's caring for a larger number of patients. It is likely that when Ontario expanded its system of public institutions, it absorbed more people who might otherwise have been placed elsewhere. Indeed, a long-time inspector of Ontario's Public Institutions, J.W. Langmuir, admitted that the mental hospitals were often receiving persons who could have appropriately been cared for in homes for the aged.⁴³ Despite this, it remains clear that when Ontario's overall revenue expanded it began to

⁴² Budget Speech delivered by Honourable Joseph Shehyn, Treasurer of the Province, in the Legislative Assembly of Quebec, on the 15th February, 1889, p. 14.

⁴³ Splane, op. cit., p. 207.

significantly outspend Quebec on Public institutions and the difference grew substantially in coming years.

Clearly, the province of Ontario was willing to extend itself financially to pay for the cost of Public institutions. In his 1886 budget speech, Ontario treasurer A.M. Ross boasted that the province dealt much more liberally with regard to public institutions than most other countries. Despite the pride which the Mowat administration exhibited with regard to this branch of expenditure, the opposition Conservatives felt that a part of the fiscal responsibility in this sector should be shifted to the municipalities. Ross intended to rely on the government's surplus to support the increased cost of public institutions. The Ontario treasurer concluded that: "we do not consider that it would be advisable at the present time to shift any responsibility on the municipalities, as we have a reserve fund on hand from which we can take the excess of expenditure".⁴⁴

In an obvious reference to the spending gap between the two provinces on public institutions, J.G. Robertson concluded that when facilities are offered in excess - as he inferred Ontario was doing - a "certain class" of patients that ought to have been cared for either by families or private charity,

⁴⁴ Financial Statement of the Honourable A.M. Ross, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, February 18th, 1886, p. 30.

are maintained at the public's expense.⁴⁵ Ontario's administrators responded to charges that extravagance accounted in any way for the substantial increases in that province's expenditure on the maintenance of Public Institutions which rose from approximately 171,500 dollars in 1871 to 650,000 dollars in 1886. In his 1886 budget speech, Ontario treasurer A.M. Ross claimed the increase was caused by the greater number of individuals in the province's institutions. As this increase occurred, the treasurer maintained that the number of "poor unfortunates" maintained by private individuals or in persons was significantly reduced. In a rhetorical comment, Ross asked:

Are the government going to maintain their expenditure as it was in 1871 and say to these unfortunates "we care not for your afflictions" and to the people, "keep your insane at home without proper medical care - we will have nothing to do with them"...⁴⁶

The treasurer concluded that "the care of these classes is a duty no government can rid itself of: so long as they are there, we feel that we must be at the expense of keeping them".⁴⁷ One can conclude that given Ontario's far greater fiscal contribution to Public institutions, it more readily

⁴⁵ Speech on the Budget by the Honourable J.G. Robertson, Treasurer of the Province, in the Legislative Assembly, Quebec, 16th June, 1880, p. 27.

⁴⁶ Financial Statement of the Honourable A.M. Ross, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, February 21st, 1884, p. 34.

⁴⁷ Ibid.

accepted responsibility for the care of the insane than did Quebec which, as a result perhaps of its financial weakness, enabled private sources to maintain a predominant role in this sector.

(iii) Conclusion

In the late nineteenth century, the government of Quebec frequently targeted the social mission for spending cuts despite the recession. This was in contradiction with the approach adopted by the Mowat administration to this sector following the introduction of the Charity Aid Act. In his turn of the century financial statement, treasurer and Premier George W. Ross boasted that annual spending on Public institutions combined with that on hospitals and charities had surpassed the 1,000,000 dollar mark. Ross concluded that:

It is evident for all time to come, unless there is some radical change in the physical condition of our people, that the maintenance of our public institutions will be a heavy charge upon us. I think perhaps one of the most gratifying features of the methods of government which were adopted in this Province at Confederation, is the fact that we have assumed the care of those who were helpless...⁴⁸

The development of social welfare generally depended on the willingness of governments, voluntary bodies and individuals to express their interest and concern in meetings needs in this area through the extension of funds necessary to support

⁴⁸ Financial Statement of the Honourable George W. Ross, Treasurer of the Province, delivered on the 8th March, 1900, in the Legislative Assembly of Ontario, p. 14.

programs and services. Richard B. Splane contends that the financial assistance provided by the Mowat administration from the introduction of the Charity Aid Act in 1874 until the close of the century contributed to a proliferation of charitable institutions.⁴⁹ He suggests that during the nineteenth century, it would have been difficult to conceive of government conducting charitable work on a comparable scale with private agencies. Splane concludes that the needs of a growing industrial society made it imperative to implement the principle of public responsibility for social welfare towards the end of the century. According to Splane, by the 1890's Ontario was making slow but discernable progress in that direction.⁵⁰

In Quebec, the notion of public responsibility for social welfare did not emerge until well into the twentieth century. Clearly, financial constraints played a role in as much as provincial administrators frequently maintained that they would have liked to contribute greater sums towards charitable endeavours. But this represented the degree to which the provincial government appeared to understand its responsibility. An administrator of the province's charitable initiatives observed that:

With the exception of certain guarantees necessary

⁴⁹ Splane, op. cit., p. 209.

⁵⁰ Ibid, p. 287.

to constitutional responsibility it (the government) contents itself with paying to the hospitals and charitable institutions a part of the cost of maintenance or of the cost of the treatment of the indigent whom they care for while leaving to them the greatest possible autonomy and the widest liberty in the exercise of their good works.⁵¹

During the early twentieth century, in reflecting on the superior spending of Ontario on the social mission relative to Quebec, Lomer Gouin concluded that:

Il ne faut chercher l'explication...que dans le zèle de nos communautés religieuses et l'admirable charité de nos populations, qui suppléent dans une large mesure à l'action gouvernementale.⁵²

Gouin's explanation overlooks the fact that in the early years of the Federation, Quebec spent as much as its neighbour on charitable initiatives. Clearly, missionary zeal must not be considered in isolation of financial constraints from 1867 to the end of the nineteenth century.

E. Developmental Expenditure

(i) Public buildings and Public works

In his study of the Quebec administration, James Ian Gow notes that: "Le souci de développement est surtout à la base des politiques ferroviaires, de colonisation agricole et de manière plus diffuse, la politique d'éducation".⁵³ Gow observes that the word "development" appeared far less

⁵¹ Copp, op. cit., p. 112.

⁵² Gouin, "Question Actuelle...", op. cit., p. 42.

⁵³ Gow, op. cit., p. 586.

frequently in Quebec budget statements after 1873, coinciding with the beginning of the economic recession. But, the penchant for development did not apply evenly to all areas of expenditure. One sector which might constitute a test of this hypothesis, was the construction of Public buildings and the enhancement of Public works.

Both in Quebec and Ontario, funding of special projects associated with the construction of Public buildings often depended closely on prevailing economic and political circumstances. During the first two decades of Confederation, the province of Quebec clearly considered railway financing to be the priority in the area of developmental expenditure. The Quebec government seemed less inclined in the late 1870's, to commit to costly projects other than the financing of railways. As Liberal opposition leader H.G. Joly pointed out: "Dans l'état d'incertitude où se trouve nos finances, il n'est pas prudent d'engager la province dans la construction d'édifices publics dont il est impossible de prévoir le coût".⁵⁴

From 1867 to 1876, the Ontario administration spent a considerably larger sum than Quebec on Public buildings and Public works (2,900,000 vs. 1,200,000 dollars). But this began to change by the 1880's, as notwithstanding the growth

⁵⁴ DALQ, 21 décembre 1869, p. 122.

in population, Ontario reduced its allocations on Public buildings and Public works, while Quebec increased spending substantially in this area and transferred much of the expenditure to the extraordinary budget. From 1877 to 1886, while Quebec spent slightly less than 1,000,000 dollars from ordinary operations on Public buildings and Public works, it contributed slightly over 1,000,000 dollars on this item and classified it as capital or special expenditure. Such classification was inspired by the view on the part of Quebec administrators that certain Public buildings were assets (e.g. Parliament buildings and Court houses). Moreover, treasurers pointed out that these projects were financed through borrowing as opposed to ordinary annual revenues.

From 1887 to 1896, Quebec and Ontario each spent approximately 6,000,000 dollars on Public buildings and Public works. This represented a dramatic rise to expenditures in this area and in the case of Quebec this increase occurred in spite of the province's financial problems.

TABLE NO. 4-9
Public buildings and public works (ordinary and
extraordinary expenditures)
Quebec and Ontario, 1867-1896

	1867-76	1877-86	1887-96
Quebec: Total	1,200,000	1,950,000	6,100,000
ordinary	1,200,000	950,000	2,800,000
extraordinary		1,000,000	3,300,000
Ontario	2,900,000	2,400,000	6,000,000

SOURCE: Quebec: "Detailed Statement of the disbursements...

1867-1893" op. cit. and Budget Speech, A.W. Atwater, 9th December, 1896, op. cit. Ontario: Financial Statement, A.M. Ross, 13th February, 1890, op. cit. and Financial Statement, R. Harcourt, 1897, op. cit.

Despite James Iain Gow's contention that "development" was a term less frequently employed by Quebec treasurers, from the late 1880's, spending on Public buildings, much like that of railways, exceeded the capacity of the province's ordinary income. The substantial rise in the expenditure on Public buildings coincided with the election of the Mercier administration. Nonetheless, Liberal treasurer Joseph Shehyn attributed the major costs of Public buildings to commitments made by the provincial Conservatives during the early 1880's. Shehyn remarked that:

...le gouvernement conservateur s'était lancé dans de grandes entreprises publiques, telles que le palais législatif, la Cour de justice à Québec, et avait promis des améliorations au palais de justice à Montréal. Ces travaux étaient en voie de construction lorsque le gouvernement Mercier est arrivé au pouvoir, travaux qui ont été continués, parachevés et payés sous le régime de ce dernier...ces mêmes dépenses étaient en vertu de contrats préexistants, et que ces obligations nous ayant été imposées, il fallait de toute nécessité les remplir.⁵⁵

Unlike the case of railway expenditure, spending on most Public buildings could not be supplemented by the private sector. While Ontario spent approximately 1,300,000 dollars from 1887 to 1896 on its Parliament buildings the province of Quebec disbursed nearly 1,000,000 dollars on the same item.

⁵⁵ "Response of Joseph Shehyn" in Jean Boucher ed., DALQ, 26 novembre, 1895, session of 1895, p. 180.

Quebec treasurer Joseph Shehyn concluded that: "...il est inutile de dire que le coût de ces travaux a contribué à grever notre budget".⁵⁶ When the Conservatives were returned to power in the early 1890's, they made a considerable effort to reduce commitments to Public buildings. Conservative treasurer John Smythe Hall also decided to shift the entire extraordinary expenditure on Public buildings to ordinary operations. From 1894 to 1896, the Conservatives managed to reduce spending on Public Buildings from nearly 500,000 dollars to approximately 150,000 dollars. Ironically, in their 1897 election campaign, the provincial Liberals concluded that the Conservatives were much less active than the Mercier administration when it came to developmental and capital projects.⁵⁷

F. Agriculture and Colonization

Many Quebec historians have stressed the importance of agriculture and colonization which they suggest were deeply rooted in the French Canadian way of life. Agriculture and colonization were considered important areas of developmental expenditure particularly insofar as the settlement of the regions of the provinces were concerned. Generally provincial administrators linked the sectors of agriculture and

⁵⁶ Ibid.

⁵⁷ Roy, op. cit., p. 93.

colonization. Although there was an important relationship between the two sectors, it is possible to separate them for the purposes of identifying specific spending patterns.

(i) agriculture

The notion of the agrarian myth became quite pervasive in Quebec to the point where a leading historian referred to agriculturalism as one of the fundamental tenets of the "mentalité" of French Canadians.⁵⁸ Nonetheless, while an important number of French Canadians did embrace the agrarian way of life during the nineteenth century, from a financial standpoint, the Quebec provincial administration did not vigorously support their enthusiasm. In fact, through most of the nineteenth century, the province of Ontario contributed slightly more both in actual dollars and on a per capita basis to the agricultural sector than did its neighbour.

TABLE NO. 4-10
Expenditures on agriculture in Quebec and Ontario, 1867-1896

	1867-1876	1877-1886	1887-1896	TOTAL
Ontario	730,000	1,260,000	1,600,000	3,540,000
Quebec	560,000	770,000	1,300,000	2,630,000

SOURCE: Quebec: "Detailed Statement of the disbursements... 1867-1893" op. cit. and Budget Speech, A.W. Atwater, 9th December, 1896, op. cit. Ontario: Financial Statement, A.M. Ross, 13th February, 1890, op. cit., and Financial Statement, R. Harcourt, 1897, op. cit.

⁵⁸ Brunet, "Trois dominantes de la pensée..." op. cit.

In his book Unequal Beginnings, economist John McCallum argues that the wealth generated by Ontario's superior agricultural land helped establish that province's economic lead over Quebec at the time of Confederation. McCallum amply demonstrates that the origins of this economic advantage were unrelated to the conservatism of the "habitants" and the influence of the Quebec clergy. According to McCallum, in Ontario, the growth of towns, transportation facilities and industry was inextricably linked to the province's strong agricultural base. McCallum concludes that:

The Quebec farmers, lacking both the virgin land of Ontario and the growing markets of the north eastern United States, were unable to find profitable substitutes for wheat. As a result, the cash income of the average Ontario farmer was at least triple that of his Quebec counterpart in the years before Confederation and this enormous difference had profound effects on economic development in other sectors of the economy.⁵⁹

This difference in the progress of agriculture between Quebec and Ontario was frequently reflected in the financial statements of the two provincial administrations and their perceived role in this sector. In his 1883 budget speech, Ontario treasurer S.C. Wood noted that while the provincial Liberal government could not regulate the price of grain or the farmers stock or produce they felt that the administration could help develop their capacity. This assistance came in the form of loans to farmers as well as grants to agricultural

⁵⁹ John McCallum, Unequal Beginnings: Agriculture and Economic Development in Quebec and Ontario until 1870, Toronto: University of Toronto Press, 1980, see back page.

societies and dairymen's associations. Wood boasted that:

I think I may safely say...without fear of successful contradiction - that no Government in any province - that no Government in any state of the Union, has done so much to encourage the tiller of the soil, to enhance and increase the value of his labour or to place his occupation upon a higher plane than has the Government of Ontario.⁶⁰

During the same period, the Quebec administration expressed little enthusiasm about the possible stimulation of the agricultural industry through the financial support on the part of the provincial government. In his 1884 budget speech, Quebec treasurer J.G. Robertson reminded members of the Legislative Assembly that it was well understood in the previous decade that the construction of railways would be pursued at the expense of items such as agriculture and colonization. This, he added, was necessary despite how some members felt about these two important objects being significantly cut. In that same year, the Quebec treasurer concluded that:

With respect to the grants for agricultural societies, I have long been of the opinion that the money thus spent did not produce the results we had a right to expect, and I am satisfied that a change...might be made.⁶¹

While from the 1884 to 1885, the Quebec administration cut the expenditure on agriculture by approximately 20 percent, there

⁶⁰ Financial Statement of the Honourable S.C. Wood, Treasurer of the Province, delivered on the 10th January, 1883, in the Legislative Assembly of Ontario, p. 27.

⁶¹ Budget Speech by the Honourable J.G. Robertson, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, 2nd May, 1884, p. 28.

was in the late 1880's a resurgence in spending by the Mercier Liberals in this sector. These increases were, for the most part, a function of greater interest in the continued expansion of the Quebec dairy industry. The sums allocated for agriculture in the final decade of the century were not higher than in previous years when viewed as a percentage of overall spending. Still, they constituted somewhat of a reversal from the downward trend in agricultural spending forecasted during the mid-1880's. In his 1888 budget speech, Quebec treasurer Joseph Shehyn concluded that:

We would have liked to do more for agriculture and the great cause of colonization: but we had to consider the requirements of the public services and the resources at our command. If we succeed in converting the funded debt and in getting the federal subsidy increased, we shall employ a portion of this additional revenue in labouing still more energetically for the settlement of our public lands.⁶²

Research and education were considered essential elements in stimulating the agricultural industry. While the Quebec administration had once expressed disappointment with the results obtained from funding of agricultural societies, the Mercier administration directed considerable efforts in this area. In the 1890's, the Premier proposed that:

Comme on se plaint qu'un bon nombre de fils de cultivateurs ne suivent pas les cours de nos écoles d'agriculture parce qu'ils n'ont pas les moyens d'y payer leur pension, nous allons leur procurer l'instruction gratuite et favoriser les

⁶² Budget Speech of the Honourable Joseph Shehyn, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, 14th June, 1888, p. 43.

agriculteurs modèles...les braves populations de nos campagnes auront...leur juste part des sacrifices que nous sommes déterminés à nous imposer pour répandre partout et dans toutes les classes l'instruction technique.⁶³

For its part, the Ontario government increased its investment in education aimed at improved farming methods. In 1867, Ontario inherited from the United Province of Canada an elaborate system of aid for disseminating information regarding farming practices. In 1871, the Ontario Agricultural College was inaugurated and once established at Guelph in 1874, became a centre for research and education. During the 1870's and 1880's, the Ontario administration spent 40 000 dollars annually on the College. In 1887 the President of the Agricultural College, James Mills, observed a rapidly increasing interest in the work of agricultural education throughout the province as well as in the Dominion as a whole.

The Ontario administration also contributed to certain types of land improvement, the most important of which was the expenditure on drainage. Beginning in the 1870's, the provincial treasurer purchased the drainage debentures of municipal governments to encourage collective underdraining. Mills concluded that:

It may be laid down as fundamental, that success in Canadian farming is no longer possible without proper drainage [and] thorough cultivation of the soil...the returns of the Ontario Bureau of Industries show that the Province is spending a

⁶³ Roy, op. cit., p. 69.

considerable sum of money in underdraining...⁶⁴

Indeed, from 1877 to 1896, nearly 1,000,000 dollars was spent by the province of Ontario to assist farmers in this manner. In Quebec, no such outlay was made by the provincial administration.

(ii) colonization

Some Quebec historians have reflected in a somewhat nostalgic fashion about the efforts made by the French Canadians to settle and develop the outlying regions of the province during the late nineteenth century. Given the economic pressures which confronted Quebec society at that time it was considered essential to prevent significant outmigration of French Canadians by creating opportunities for them outside urban centres. Several colonization societies were established which spearheaded the settlement of French Canadians in the regions of Quebec. The development of Quebec's frontier was considered a responsibility of the state at both the federal and provincial levels of government. But the Quebec provincial government was perceived to have a special role in the expansion of the North which was linked to the "survivance" of French Canadians.

Recent work by Quebec historians suggests that during the late

⁶⁴ "Report of the President... in Report of the Ontario Agricultural College", in Ontario Sessional Papers, no. 6, A. 1887, p. 3.

nineteenth century, the Quebec state assumed a passive role with regard to colonization. In their book on Quebec economic history, Jean Hamelin and Yves Roby conclude that the clergy played the role normally assigned to the state in the area of colonization.⁶⁵ Despite their assessment, it should not be overlooked that in the early years of the Federation, Quebec treasurers regarded the construction of colonization roads - which constituted the most important aspect of colonization funding - as perhaps the greatest priority in the province's economic development. Consequently spending in this area reflected this latter view.

In 1872, Ontario treasurer Alexander Mackenzie referred to colonization funding as one of the few sectors in which relative to its municipalities the province of Quebec was contributing far more than its share. In fact, on a per capita basis, the Quebec government outspent its neighbour by a considerable sum in this area.

TABLE NO. 4-11
Expenditures on colonization, Quebec and Ontario, 1867-1896

	1867-76	1877-86	1887-96
Quebec	1,070,000 (-33%)	725,000 (+35%)	1,144,000
Ontario	680,000 (+50%)	1,160,000 (-3%)	1,120,000

SOURCE: Quebec: "Detailed Statement of the disbursements... 1867-1893" op. cit., and Budget Speech, A.W. Atwater, 9th December, 1896, op. cit. Ontario: Financial Statement, A.M. Ross, 13th February, 1890, op. cit. and Financial Statement, R.

⁶⁵ Jean Hamelin et Yves Roby, op. cit.

Harcourt, 1891, op. cit.

Ontario treasurer Alexander Mackenzie claimed that while Ontario devoted its funding on colonization roads to areas where there was little or no population so as to be able to contribute anything for local purposes, Quebec contributed almost two thirds and in certain years as much as three quarters of the money allocated for this purpose to the older settled counties. Alexander Mackenzie correctly observed that Quebec's colonization roads funding strategy differed from that of Ontario.⁶⁶ Quebec's Minister for Colonization outlined his administration's policy in the following way:

Roads of the first class will be built by government, those of the second and third classes will be built partly at government expense and partly at the expense of the municipalities interested in their completion. The introduction of this system will admit of the construction of roads of general utility.⁶⁷

Undoubtedly, the Quebec government stated that the development of colonization roads to be vital, it could not meet the numerous claims for financial assistance were laid before the administration. As the Quebec Minister of Colonization remarked, "...if all the demands... had to be acceded to, the annual revenue of the province would be insufficient".⁶⁸

⁶⁶ Budget Speech of the Honourable Alexander Mackenzie, Treasurer of the Province, in the Legislative Assembly of Ontario, 14th February, 1872, p. 5.

⁶⁷ "Report of the Minister of Colonization..." in Quebec Sessional Papers, 32 Vict. (no. 4), A. 1869, p. 8.

⁶⁸ Ibid.

The important financial contribution made by Quebec for colonization roads diminished substantially during the late 1870's. As the provincial Conservatives contributed to regional railways, the allocation for colonization decreased. From its height of approximately 234 000 dollars in 1870, the province's spending in this sector in the midst of the recession, plunged to 34 000 dollars by 1880. By the late 1870's, the Ontario provincial government was spending much larger amounts on colonization roads than its eastern neighbour. While Quebec's reduction of colonization funding from 1877 to 1886, has generally been attributed to the economic downturn, it is clear that the shift in fiscal priorities toward larger railway projects was also a major factor. Indeed, Quebec politicians justified the decrease by emphasising that railway development was the best method through which to advance the cause of colonization. In his 1880 budget speech, Quebec treasurer J.G. Robertson concluded that:

Some years ago, the grant for colonization purposes was much larger than it now is, but the larger expenditure on railways which after all form the best colonization roads, prevents me giving more at this time, and it would be unwise to appropriate for this purpose any sum which the Province cannot afford.⁶⁹

Some observers assumed that colonization provided the answer for dealing with the surplus population which emerged as a

⁶⁹ Budget Speech of the Honourable J.G. Robertson, Treasurer of the Province, in the Legislative Assembly of Quebec, 16th June, 1880, p. 24.

consequence of the high birth rate among the French Canadian population in the nineteenth century. While certain politicians may have shared this view, they also believed that in the short term financial resources were inadequate to create the necessary economic conditions to favour successful colonization. Given its fiscal and demographic dilemma, the Quebec government directed its support at efforts to retain colonists within the province's territory while attempting to repatriate those persons who had left Quebec for neighbouring states. In the mid-1870's, the Conservatives went so far as to create a special budgetary allocation for "repatriation" though only during two fiscal years did it make any noticeable contribution to this item.

Clearly, from a political standpoint both in Quebec and Ontario there was some recognition that the state had a role to play in the development of the regions. From a geo-economic standpoint, the conditions which prevailed in the provinces diverged in an important way. While Ontario was fortunate to have several mid-sized urban centres with financially secure municipalities to support their growth, Quebec had a rather large hinterland and a poorly endowed municipal infrastructure. In his book La Conquête du Sol au 19ième Siècle, Normand Séguin examines Quebec's inability to properly develop its underdeveloped regions. He claims that the failure of the Quebec state to assume responsibility for

development of the regions left many colonists vulnerable to the machinations of speculators who benefited from generous land grants. As Séguin notes:

...les sociétés de colonisation se sont comportées comme des agents de la monopolisation de l'espace et de la spéculation. En les forçant à entreprendre des travaux qui normalement revenaient à l'état (construction et entretien des routes) et en les obligeant à défrayer le coût prohibitif de l'isolement, la politique de concession des terres condamnait à la faillite les sociétés de colonisation.⁷⁰

The governments of the period, however, did not necessarily see their responsibility in the way it is described by Séguin. Essentially, they deemed that the state was not in a position to provide the massive support for the development of the regions through the final quarter of the nineteenth century. As J.G. Robertson remarked:

We sometimes hear its said that agriculture and colonization do not secure the attention which they deserve from government. I fully appreciate the importance of these questions. But there are so many important objects asking for aid, the government can only distribute amongst those, such funds as they have at their disposal.⁷¹

The Conservatives maintained the expenditure on colonization at a reduced level during the early and mid-1880's. With the election of the Mercier administration, spending on colonization rose considerably to once again attain the record

⁷⁰ Normand Séguin, La Conquête du Sol au Dix-Neuvième Siècle, Montréal: Boréal Express, 1977, p. 115.

⁷¹ Budget Speech of the Honourable J.G. Robertson, Treasurer of the Province, in the Legislative Assembly of Quebec, 16th June, 1880, pp. 24-25.

levels of the early years of Confederation. Mercier reminded his opponents of their initial enthusiasm for colonization, which he regarded as vital to the future of the French Canadian population. In his 1886 election campaign, Mercier proposed the "...économie des deniers publics et suppression des dépenses d'immigration et d'administration qui ne sont pas strictement indispensables au service public, pour augmenter d'autant les octrois de colonisation..."⁷²

When the Conservatives regained power in the early 1890's, the allocations for colonization were once again reduced and from 1891 to 1893, expenditure dropped from approximately 125,000 to 80,000 dollars per annum. It seems that spending on colonization was subject to greater fluctuations than other ordinary developmental expenditures. Also, it would appear that the Conservatives considered that this sector was particularly susceptible to cutbacks. At the turn of the century, Liberal leader Lomer Gouin observed that: "...contrairement aux budgets de l'agriculture, de la justice, des asiles et des hôpitaux, celui de la colonisation n'a guère augmenté depuis trente ans".⁷³

Towards the end of the century, Quebec politicians made an effort to remind the federal authorities that they had some

⁷² Roy, op. cit., p. 56.

⁷³ Gouin, "Question Actuelle...", op. cit., p. 48.

responsibility for colonization in the province. While the federal government played an important role in colonization through the development of a national railway network, it also paid particular attention to development in Western Canada.

While the Quebec government did not oppose such development, at times it contrasted the federal government's commitment to the expansion of the Western Canadian frontier with the support extended to Quebec's hinterland region by Ottawa. In this vein, Lomer Gouin argued that:

...Ottawa appliquant tous ses efforts au peuplement de l'Ouest, nous a laissé entièrement à nos propres forces....Tout ce que nous demandons au gouvernement fédéral, c'est de se rappeler un peu ce que Québec a fait pour la prospérité du pays, de se rappeler que si ce Canada ne commence pas à l'Atlantique pour se terminer au lac Winnipeg, il ne commence pas plus au lac Winnipeg pour se terminer au Pacifique.⁷⁴

The question of colonization served as yet another example held up by Quebec in order to demonstrate what it perceived as the inadequacy of its financial support from Ottawa.

Both in Quebec and Ontario, the forest industry was intimately linked with agricultural colonization. The combination of agriculture and forestry was normal in the initial phase of development and it was often necessary given the nature of the frontier. For many settlers it was no more than a transition. Neither province was eager to sacrifice significant potential

⁷⁴ Ibid, p. 49.

timber revenues for the sake of colonization. Often land speculators benefited from the labour supplied for the lumber trade by colonists who inhabited the regions. At the turn of the century, Lomer Gouin observed that:

Quel intérêt trouverait-il à aliéner le fond du sol...le bois debout augmente rapidement en valeur...Loin de nous, cependant, l'idée de renoncer à cette noble tâche [de colonisation].⁷⁵

There was a recognition that agricultural colonization threatened the government's ability to obtain the maximal revenue from timber. Clearly, however, because of its financial position and the poorer access to market of its regions, Quebec was far more vulnerable to speculators than was the province of Ontario. After Confederation, agriculture and lumbering spread into Ontario's Northern frontier. Following the large sale of timber berths in 1871 and 1872, the Ontario government opened new townships for settlement. The area was generally rocky and not well suited to agriculture. Under the Free Grants and Homestead Act of 1868, the distribution of public lands suitable for settlement and cultivation was authorized. Pine trees and mineral lands were set apart.⁷⁶ To avoid speculation, under both the government of Sanfield MacDonald and that of Oliver Mowat, public lands were granted only to "bona-fide" settlers.⁷⁷

⁷⁵ Ibid.

⁷⁶ Margaret Evans, op. cit., p. 444.

⁷⁷ Ibid.

Mowat saw optimum economic development of province in opening of pre-Cambrian hinterland and increase in settlement which would ultimately mean: "...more farms, more markets, more labour supply and more sources of provincial wealth".⁷⁸ The government delayed plans to open up new townships during the recession and put a halt to the distribution of land either by purchase or under the homestead arrangements of 1868. By the 1880's, settlement resumed again and the Ontario government injected funds in regional railway lines and colonization roads. With the beginning of the development of Ontario's northern frontier, during the late 1880's, there was a marked increase in the province's allocation for colonization. The Ontario officials had discussed the measures with farmers in the regions and there was a willingness expressed by the government to deal generously with settlers in the new countries. As one Ontario treasurer put it, the new settlers must be assisted in confronting the "...trials and privations to which they were exposed".⁷⁹

Ontario also recognised that there were also vital economic interests in the development of the province's hinterland. In 1887, treasurer A.M. Ross declared that:

Nor must we forget that a large portion of our

⁷⁸ Ibid.

⁷⁹ Financial Statement of the Honourable A.M. Ross, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, March 15th, 1887, p. 13.

revenue is derived from those territories; that our revenue from Woods and Forests is mainly derived from the localities in which the expenditure on colonization roads is incurred.⁸⁰

Clearly, Quebec administrations of the late nineteenth century looked upon settlement of the frontier as largely motivated by the need to sustain the French Canadian population within its territory. From the standpoint of several Quebec Conservatives, as expressed by treasurers J.G. Robertson and John Smythe Hall, such funding was quite vulnerable to cutbacks. While Ontario did not spend a considerable sum on colonization, its expenditure was less influenced by the recession than that of Quebec. Politicians in Ontario looked somewhat optimistically at the economic prospects which were situated in the province's frontier.

G. Education

Although it is neither easily linked to developmental expenditure or the social mission, spending on education/public instruction was generally considered vital by both Ontario and Quebec administrations. Throughout the latter half of the nineteenth century, the number of pupils, schools and teachers regularly increased in both provinces. The provincial contribution to this sector from the post-Confederation period to the close of the century, represented a small, but not negligible, percentage of overall expenditure

⁸⁰ Ibid.

on public instruction. Over the period 1867 to 1896, the share of the government's contribution ranged from ten to fifteen percent in Quebec and from fifteen to twenty percent in the province of Ontario. We shall observe that, particularly in Quebec, these allocations tended to vary with fluctuations in economic conditions. Education was not universally accessible during the nineteenth century and in Quebec, from 1867 to 1896, the major portion of the cost was assumed directly by parents (fluctuating between 40 and 50 percent) and real estate taxes which assumed a growing share over the period (rising from approximately 25 to 40 percent). The remaining cost was covered by the provincial government grants, half of which went to public schools and in order of financial importance the balance of the province's contribution went to superior education, what were referred to as normal schools, school inspection, and institutions for the deaf and dumb.⁸¹

For its part, the province of Ontario's education system was predominantly financed by parents through municipal assessment (approximately 60 to 70 percent) with an additional 15 to 20% emanating from private sources, e.g. Clergy Reserve Funds (see Table 14). Similar to Quebec, from 1867 to 1896,

⁸¹ Linteau et al., *op. cit.*, pp. 209-210. They state that: "In 1874, ...about fifty per cent of the amount spent for education came from parents and more than thirty per cent came from property taxes".

approximately half of the total provincial contribution went to public and Roman Catholic Separate schools with, in order of financial importance, the balance being distributed to school inspection, teacher training, superior education, teachers pensions and technical education.⁸²

With the election of Oliver Mowat during the early 1870's, expenditure on education in Ontario emerged as a priority for the administration. By the mid-1870's, the Ontario government began to substantially increase its contribution to this sector. As the province of Quebec stabilized its spending on education, its expenditure began to lag behind that of Ontario during the last quarter of the nineteenth century.

TABLE NO. 4-12
Expenditures on education
Ontario and Quebec, 1867-1896 (rounded figures)

	1867-76	% increase	1877-86	% increase	1887-96
Ontario	3,700,000	(45%)	5,300,000	(19%)	6,400,000
Quebec	2,900,000	(15%)	3,400,000	(8.5%)	3,900,000

SOURCE: Quebec: "Detailed Statement of the disbursements... 1867-1893", op. cit. and Budget Speech, A.W. Atwater, 9th December, 1896, op. cit. Ontario: Financial Statement, A.M. Ross, 13th February, 1890, op. cit., and Financial Statement, R. Harcourt, 1897, op. cit.

The above table demonstrates the major increase in spending by Ontario from the mid-1870's to the mid-1880's, relative to

⁸² See "Government Grants to Education" in Ontario Sessional Papers, (no. 1), 61 Victoria, A. 1898, p. xxi.

that of its neighbour. Moreover, as Ontario's spending on education averaged 18% of its total ordinary budget throughout virtually the last three decades of the nineteenth century, in Quebec, the share of education as a proportion of overall expenditure dropped from 12.5%, between 1867 and 1876, to slightly below 10% from 1887 to 1896.

In his 1898 report, the head of Ontario's Education Department declared that: "owing to the liberality of the Legislature, there has been a steady increase in the grant made for education during the past 25 years".⁸³ This period largely coincided with the rule of Oliver Mowat. At the outset of the Federation, under the Conservative administration of Sanfield Macdonald, the province of Ontario did not differ markedly from Quebec in its total spending on education. Although from 1867 to 1870 Ontario spent slightly more than its neighbour in actual dollars in this sector, on a per capita basis, Quebec's expenditure was superior. Considering that provincial administrators enjoyed boasting of their spending on public instruction, Ontario appeared defensive regarding its annual contribution prior to the arrival of the Mowat administration. Indeed in 1871, the Ontario treasurer charged that relative to other contributors - private or municipal - the Quebec government spent too much on education. In that year, while Quebec spent 26 cents per capita on education, Ontario spent

⁸³ Ibid.

24 cents per capita on education.

In his 1871 report, the Chief Superintendent of Ontario schools, while warning the population of the inadequate condition of many schools, noted encouraging signals with regard to the public's desire for improvements. Two main observations were made by Ontario school inspectors in that year:

1. ...that the internal condition of the Schools generally has not materially improved for years...and the paramount desire in many places to obtain their services. If at all, at a "cheap" rate, have told fearfully upon the Schools, and have discouraged all hope of real progress and advancement.

2. The second fact...- and it is a most encouraging one -is that the people generally when approached in the right spirit, are most anxious to better, at least, the material condition of their schools. They see that in most cases, the School House and School premises are far below the passive state in which they should be found,...⁸⁴

In his study on The Schools in Ontario, historian Robert M. Stamp notes that annual provincial expenditures for education more than doubled in the quarter century between 1871 and 1896 and when the growth of population was taken into account, the increase amounted to fifty percent per capita. Stamp adds that given Mowat's preoccupation with social issues, it was not surprising that he placed a great deal of importance in

⁸⁴ "The Chief Superintendent's Annual Report in 1871", J.G. Hodgins, Documents Illustrative of Education in Ontario, Toronto, 1908, p. 234.

generously supporting education.⁸⁵

In 1869, the province of Quebec created a Department of Public Instruction and there was a view that the government, under Conservative Premier P.J.O. Chauveau, would assume substantial responsibility for education. This, however, did not prove to be the case. In 1875, the Department of Public Instruction was abolished and the clergy maintained its predominant influence over the school system.⁸⁶

As Quebec faced the economic recession, in the mid-1870's, reductions in the government's contribution to education appeared imminent. In his 1876 budget speech, treasurer Levi Ruggles Church claimed that he would sincerely like to spend substantially more on education, but financial circumstances prevented such a development at that time. If the Quebec Legislative Assembly would support the administration in a scheme to raise more money for the poorer schools, Church claimed he would willingly increase the grant. He recognized, however, that there was serious opposition to further government support from those who felt that "...the people

⁸⁵ Robert M. Stamp, The Schools of Ontario, Toronto: University of Toronto Press, 1982, p. 46.

⁸⁶ Louis-Philippe Audet et Armand Gauthier, Le Système Scolaire du Québec: Organisation et Fonctionnement, Montréal: Librairie Beauchemin, 1969. Also see L.P. Audet, Histoire du Conseil de l'instruction publique, Montréal: Editions Limeau, 1964.

ought to contribute more directly and more largely to the support of elementary and superior schools. Much of the cost of the support must, in future, come from the municipalities...".⁸⁷ This objective was extremely difficult to attain as through most of the late nineteenth century, Quebec school inspectors testified to the limited fiscal resources at the disposal of the province's municipalities.

From 1877 to 1896, the Quebec government's expenditure on education increased by only 20,000 dollars (approximately 360,000 to 383,000 dollars) despite continued growth to all sectors of the school system. During the 1880's, both provinces reduced spending on education, but the Mowat administration was able to boast its relief to municipalities as having offset the cut backs. In his 1884 budget speech, treasurer J.G. Robertson insisted on the need to decrease spending on education. He eliminated grants to scientific and literary institutions which while having been subsidized for many years were able, according to the treasurer to be self-sustaining. He also hoped that future grants for the reconstruction of educational buildings could be discontinued. With respect to the allocation for common schools, neither Robertson nor his successors made reductions, and there was general agreement that these were among the last services that should be curtailed. With respect to this matter, he

⁸⁷ Montreal Gazette, December 2, 1876, p. 2.

concluded that:

The youth of our province should have as far as possible the means afforded them of obtaining at least the rudiments of education, more especially, the children of our poorer citizens, and I should be sorry indeed to cut off any amount from the usual grant for the maintenance and support of our common schools...⁸⁸

In the following ten years, while there were no cuts to the allocation for common schools, by 1896, Quebec had maintained nearly the same level of funding as that of the previous decade. With the exception of slight increases to schools in poorer municipalities, school inspection, grants to superior education and night schools, expenditure on education either decreased or was frozen from 1884 to 1896.

Historian Robert Stamp concludes that the accomplishments in education during the lengthy tenure of the Mowat administration were considerable. He contended that any quantitative comparison with other Canadian provinces or American states would reflect well on Ontario. Indeed, the Superintendent of Ontario Schools enjoyed contrasting his province's education sector with the States of the Union and other countries. He maintains that:

...comparisons in the average cost of educating children in the elementary schools and of training qualified teachers, show that this province on the whole, occupies, relatively to the specified States

⁸⁸ Budget Speech of the Honourable J.G. Robertson, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, 2nd May, 1884, p. 26.

of the Union and England, a favourable position.⁸⁹

TABLE NO. 4-13
Government and general contributions to expenditures on
education, Quebec and Ontario, select years 1867-1896

QUEBEC

	Government % of total		General Contribution	Total
1867-68	256,000	16.3%	1,313,000	1,569,000
1872-73	309,190	14.2%	1,862,700	2,171,890
1876-77	344,430	13.4%	2,227,680	2,572,110
1882-83	352,680	11.2%	2,809,740	3,162,420
1887-88	362,220	15.2%	2,022,900	2,385,120
1892-93	393,960	14.1%	2,397,040	2,791,000
1895-96	392,760	14%	2,407,630	2,800,390

SOURCE: Report of the Superintendent of Public Instruction of the Province of Quebec for the year 1895-1896, printed by the order of the Legislature, Quebec Sessional Papers, 59 Vict., (no. 5), 1898, p. xvi.

ONTARIO

	Government % of total		General Contribution	Total
1867	275,000	16.5%	1,395,000	1,670,000
1872	467,000	18.5%	2,063,000	2,530,000
1877	556,000	16.3%	2,849,000	3,405,000
1882	513,000	14.8%	2,957,000	3,470,000
1887	570,000	13.2%	3,760,000	4,330,000
1892	653,000	13.6%	4,157,000	4,810,000
1896	702,000	14.4%	4,183,000	4,885,000

⁸⁹ Stamp, op. cit., p. 46.

SOURCE: Report of the Minister of Education for the Province of Ontario, for the year 1897, 61 Victoria, (no. 1), 1896, p. x.

Reflecting on the greater per capita spending of the province of Ontario on education, Lomer Gouin remarked that:

...on pourrait en conclure à première vue que nous sommes en arrière de la province anglaise, nous pouvons donc opposer auprès du gouvernement fédéral notre décentralisation scolaire si en harmonie avec l'esprit Canadien français. La part du gouvernement dans le soutien de l'école est réduite.⁹⁰

Perhaps when looking at the comparative expenditure on education in the early twentieth century, Lomer Gouin could explain Quebec's more limited intervention as a function of the French Canadian penchant for decentralization. Such an analysis would oversimplify the evolution of state expenditure in both provinces. In Ontario's case, it is important not to overlook that the increase to spending by the Mowat administration was significant relative to the minor expenditure on education of Conservative Premier Sanfield Macdonald at the outset of the Federation. The province of Quebec began Confederation with an education expenditure that was comparable to that of its neighbour and with a centralized government structure. With the need for budget cuts in the mid-1870's, and pressure from both French Catholic and English Protestant authorities further reinforced by the economic recession, decentralization of authority and limits on spending characterized Quebec's approach in this sector until

⁹⁰ Gouin, "Question Actuelle...", op. cit., p. 39.

the end of the nineteenth century.

H. Debt service

With the decision to assume control of the Quebec, Montreal, Ottawa and Occidental Railway and the financing of other railways, came a recognition on the part of Quebec administrators that considerable borrowing would be necessary to finance these operations. It is unlikely that Quebec politicians foresaw the eventual sum, both direct and indirect, which would be required to meet current and future obligations of the railway. The initial loans involved the payment of annual interest which treasurers drew from the ordinary budget. Within a year of the railway takeover, the modest sum of 150 000 dollars was required to service the debt. Continued borrowing resulted in an increase to this sum and despite the sale of the railway in 1882, approximately 725 000 dollars was still needed to cover annual debt service. By 1879, debt service represented the single largest item in Quebec's ordinary expenditure and by the mid-1880's, this item constituted a full third of the ordinary expenditure.

TABLE NO. 4-14
Debt Service as a percentage of total ordinary expenditures
in Quebec, 1877-1896

1877-86	7,000,000	23%
1887-96	13,000,000	32%

SOURCE: Quebec: "Detailed Statement of the disbursements... 1867-1893" op cit. and Budget Speech, A.W. Atwater,

9th December, 1896, op. cit.

Debt service was without question a serious financial obligation for the Quebec government and represented a major constraint on spending within what the administration perceived to be an already limited total expenditure. The need to pay substantial annual interest charges was likely the major factor in creating pressure on the Quebec government to perpetually seek new sources of income beginning in the early 1880's. Lastly, the dramatic growth of annual interest resulted in the need to regularly evaluate financial priorities with a view to cutting certain basic expenditures. As one politician noted:

Pour payer l'intérêt et les fonds d'amortissement sur les débentures que nous proposons d'émettre... il faudra pratiquer la plus stricte économie dans les dépenses occasionnées pour les autres branches du service public et probablement réduire plusieurs allocations qui sont actuellement payées à même le trésor public. De cette façon, nous pourrons faire les affaires du pays et payer nos intérêts...⁹¹

The government was operating with what might be referred to as a two-thirds budget during a period of dismal economic performance.

While Quebec struggled with the management of its debt, the Ontario administration possessed no similar burden from Confederation until the beginning of the twentieth century.

⁹¹ Discours du budget de l'Honorable J.G. Robertson, Trésorier de la province, le 13 janvier 1874, in DALQ, session de 1873-1874, p. 146.

The growing significance of debt service in the province of Quebec was held up in Ontario as a function of the consequences of violating the principles of sound economy. With an annual outlay of nearly 1,500,000 dollars by 1894, it was pointed out that nearly one out of every three dollars spent by the province of Quebec was set aside to meet interest charges. As one Ontario politician remarked, the province of Quebec was paying 450,000 dollars more interest on debt than on agriculture, education and justice combined. Ontario treasurer H.R. Harcourt pointed out that while Quebec paid large annual interest charges, the province of Ontario was regularly in receipt of large sums of money representing interest on its invested funds.⁹²

Unlike their Ontario counterparts, Quebec treasurers frequently reminded the population of the sacrifices it would have to make in order to meet these annual payments. As we shall see, the dissimilar experience with respect to both short and long term debt significantly influenced the political and fiscal behaviour of the two provinces in the early twentieth century.

I. Conclusion: The Politics of Expenditure

Despite the use of capital account, Quebec continued to spend

⁹² Financial Statement of the Honourable R. Harcourt, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, 6th March, 1894, p. 13.

more than it earned on ordinary operations. For its part, in the 1880's, Ontario's annual expenditures regularly exceeded its ordinary annual revenues. Consequently, it appeared necessary to demonstrate greater vigilance with respect to possible increases to the province's expenditure. From the mid-1870's to 1896, both provinces were frequently charged with irresponsibility in spending behaviour by the respective political opposition parties. Such criticism was omnipresent during election campaigns. Given its elevated level of debt, it is not surprising that the province of Quebec was more often the target of such attacks than its neighbour. Nonetheless, the Ontario administration of Oliver Mowat (c. 1872-1896) was not immune to criticism with regard to its spending behaviour during the late nineteenth century.

A decision to reduce expenditure often entailed a certain degree of political risk. Many constituents expected increases in expenditure to reflect their specific concerns. During the 1870's, the support for surplus distribution in Ontario suggested that the population desired that funds be invested to develop resources. Quebec treasurer J.G. Robertson noted that to be a popular treasurer "in the usual acceptation of the word popular", it was necessary to grant money freely. To do otherwise, he believed, risked the

government's standing with the population.⁹³

Upon his return to the post of treasurer, following the experience with the Q.M.O. & O. Railway, Robertson and the provincial Conservatives continually urged reductions in most branches of expenditure in order to deal with the province's mounting debt. In his 1880 budget statement, Robertson concluded that:

No one knows better than I do, the extreme difficulty of keeping down expenditure within proper limits, and that when a failure of revenue occurs, or when extra expenditure is permitted the poor treasurer has to bear all the blame, and he is charged with inefficiency and incapacity, when perhaps he has done all he could.⁹⁴

During the 1880's, Ontario's political opposition accused the Mowat administration of having overextended itself by raising expenditures too rapidly since the 1871 departure of the Conservative government under Sanfield Macdonald. Mowat administration treasurer, S.C. Wood, claimed that the increases to the province's spending were perfectly justified and it was inappropriate to make superficial comparisons with the Conservative administration of the immediate post-Confederation years. Wood remarked that:

The circumstances of this country since the days of

⁹³ Budget Speech by the Honourable J.G. Robertson, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, May 2nd, 1884, p. 34.

⁹⁴ Budget Speech by the Honourable J.G. Robertson, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, June 16th, 1880, p. 10.

Sanfield Macdonald have greatly changed, and its requirements advanced to such a degree as to render such a comparison altogether impossible and altogether unintelligible even if it were possible.⁹⁵

In order to illustrate his point Wood referred to three items where between 1871 and 1882, substantial increases were applied. Those being: (1) public institutions maintenance which rose from 171,000 dollars to 600,000 dollars; (2) education which increased from 351,000 dollars to over 500,000 dollars; and (3) charities which climbed from 40,260 dollars to 78,095 dollars.⁹⁶

Both Wood and his successor, treasurer A.M. Ross, felt that it was unfair to compare gross expenditure in 1871 with gross expenditure in 1881 or 1883. Both noted that by 1873, within two years after the departure of the Sanfield Macdonald administration, expenditures were increased in many sectors and new items such as aid to railways were introduced. Ross concluded that if one were to compare 1873 to 1883, they would find a much less spectacular increase to overall expenditures.⁹⁷

⁹⁵ Financial Statement of the Honourable S.C. Wood, Treasurer of the Province, delivered in the Legislative Assembly, January 10th, 1883, p. 15.

⁹⁶ Ibid.

⁹⁷ Financial Statement of the Honourable A.M. Ross, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, February 21st, 1884, pp. 33-35.

S.C. Wood felt that it was necessary to look at other jurisdictions to determine whether Ontario's spending was out of proportion with what was taking place elsewhere. He stated that:

...we have to judge a great deal...by what our neighbours are doing...how fast we are increasing our expenditure when compared with the rate at which other countries of an agricultural character and similarity to ourselves are increasing theirs.⁹⁸

While Wood had demonstrated little sympathy for Quebec's financial predicament, he suggested that the province was perhaps not ideally suited for analysis since "...peculiar circumstances surrounding the position of that province ...would make it unfair to institute such a comparison".⁹⁹

Despite Wood's declaration, in the following year, Ontario treasurer A.M. Ross engaged in a lengthy comparison of his province's spending with that of Quebec. Ross maintained that the true test of extravagance should focus upon spending on basic government services while excluding to some extent the administration of justice. The treasurer contended that contributions made to the six main branches of expenditure (administration of justice, public institutions, education, agriculture, hospitals and charities and colonization roads)

⁹⁸ Financial Statement of the Honourable S.C. Wood, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, January 10th, 1883, p. 21.

⁹⁹ Ibid.

constituted a refund to the population and a relief from the potential burden of local taxation. Ross implied that if the province did not provide the funds for these expenditures, the monies would have to be procured elsewhere.¹⁰⁰

For A.M. Ross, the true method of testing extravagance would be to examine civil government and legislation, the only two branches of expenditure which he felt would demonstrate the existence of such behaviour. In these two sectors, Ross stressed that Quebec had outspent its neighbour despite Ontario's larger population. He also noted that on a per capita basis, the federal government had a considerably greater expenditure than his province in this area.

Conservative treasurer Robertson was not pleased with the comparisons made to his province's finances by Ontario treasurers in the mid-1880's. In his 1884 statement, he suggested that partisan motives were behind his neighbour's focus on Quebec's financial position. Robertson pointed out that from 1871 to 1883, Quebec had increased its ordinary expenditure by 300,000 dollars against an increased expenditure in Ontario of 1,000,000 dollars. He noted that while Quebec spent more on civil government, from 1871 to 1883, Ontario's spending on this item had increased much

¹⁰⁰ Financial Statement of the Honourable A.M. Ross, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, February 21st, 1884, p. 29.

quicker than that of Quebec. Robertson added that "...a similar favourable comparison could be instituted of nearly every item of expenditure in the two provinces".¹⁰¹

Ontario's greater spending increases could only be the subject of criticism if retrenchment was the primary goal of the provincial treasurers. Indeed, for some observers, during the recessionary period, this may have been the proper fiscal objective. Robertson recognized that the Ontario administration often referred to its greater provision for asylums, prisons and reformatories as opposed to that of Quebec. Ontario administrators added that education had been more widely disseminated in their province and the government generally responded better to the needs of the population. Robertson countered by referring to Quebec's far superior spending on railways relative to the allocations made by its neighbour. He noted that Ontario treasurers had overlooked Quebec's interest payments from its debt which were essential to "...fairly compare the position of the two provinces". Finally, he pointed out that Quebec's obligation to publish documents in two languages resulted in greater expenditure on basic government services than Ontario. All these omissions by the Mowat Liberals led Robertson to conclude that:

...when it suited the political exigencies of the

¹⁰¹ Budget Speech by the Honourable J.G. Robertson, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, May 2nd, 1884, p. 12.

reform party [the Ontario Liberals] to misrepresent the financial condition of Quebec, to slander the administration of the Conservative party, none of these considerations were obtruded.¹⁰²

In his 1884 budget, Robertson insisted that it was critical to cut expenditures for a number of years if the province wished to avoid financial embarrassment. He maintained that while there were certain services and expenditures that could not be reduced without injuring the province's credit and doing injustice to the general public, there were still cuts that could be made in nearly every department. Robertson remarked that Quebec's formerly "large expenditure" had to cease. He referred to the debt service, the care of lunatics, education and certain expenses associated with the legislature and the administration of justice that were difficult for the government to reduce. Yet, save debt service, even in the previously noted sectors he felt expenses could be controlled.¹⁰³

From 1884 to 1886, Robertson implemented cuts of approximately 10 percent to all branches of expenditure. By 1886, the Conservatives boasted that since 1883, they had reduced total annual spending by nearly 200,000 dollars. The opposition charged that in view of the approaching general elections, the provincial Conservatives' motivation for such action was

¹⁰² Ibid.

¹⁰³ Ibid., pp. 8-9.

purely political. During the 1886 election campaign, the Conservatives did indeed stress their efforts at economy in expenditure. Conservative candidate, J.J. Ross, concluded that:

Amoindrir la vigueur de l'administration de la chose publique par une économie mal entendue, ne serait certainement pas rendre un service à la province. Le but à atteindre est donc de bien expédier les affaires, de gouverner le mieux possible avec le moins de frais. C'est ce que le gouvernement a fait.¹⁰⁴

Despite the reductions to certain ordinary expenditure, in the years following the sale of the Q.M.O. & O. Railway, the Quebec Liberals argued that the government was responsible for the financial calamity which paralyzed the province. Led by Honoré Mercier, the Liberal-Nationalist coalition did not, however, propose any broad program of spending cuts to remedy the financial situation. Instead, they called for a redistribution of federal and provincial powers designed to reduce the latter government's obligations.

With the election of the Mercier government in 1886, the expenditures were returned to their former level. Treasurer Joseph Shehyn expressed the view that the reductions of 1885 and 1886 were attempted at the expense of the efficiency of the public service. Shortly after their election victory, the Mercier administration claimed that it was impossible to

¹⁰⁴ Jean-Louis Roy, Les Programmes Electoraux du Québec: Un Siècle de Programmes Politiques Québécois, Tome I, Ottawa: Leméac, 1970, p. 58.

curtail the current expenditure given the increase of debt service and the need to meet certain commitments. Moreover, Shehyn felt that it was becoming more difficult to reduce spending while keeping pace with the increase in population. He noted that:

New demands are constantly arising and it is, in addition, almost an impossibility to resist the pressure brought to bear on the Government by the people who want a policy alike generous and in accordance with the growing requirements of the country.¹⁰⁵

Unlike his Conservative predecessor, Shehyn was more intent on obtaining additional income with, for example, increases in the cost of Licenses, rather than curtailing expenditures. He concluded that while everyone was anxious for greater spending they were bitterly opposed to all attempts to increase sources of revenue. In their initial years in office, the Conservatives were able to keep ordinary expenditure in line with revenue.

At the very outset of the 1890's, however, the Mercier administration confronted a situation where expenditures substantially exceeded the province's annual revenues. While in opposition, the provincial Conservatives attacked the Mercier government for constantly increasing the province's expenditure. During the 1890 election campaign, Premier

¹⁰⁵ Budget Speech delivered by the Honourable Joseph Shehyn, Treasurer of the Province, in the Legislative Assembly of Quebec, 9th December, 1890, p. 11.

Honoré Mercier responded to charges that his party had failed to practice economy. Mercier contended that unlike his opponents he could not justify reductions to social expenditures. He added that the government's intention was to increase allocations for such items as public instruction and charitable institutions. Mercier felt that there was strong support from the population for such an approach. He concluded that:

Le jour où le peuple voudra de ces économies et voudra aussi arracher quelques piastres à ces maisons de charité et d'éducation, il le dira: nous nous retirerons et laisserons revenir au pouvoir ceux qui ont assez peu de coeur pour pratiquer brutalement ce genre d'économie. Quant à nous, nous n'en avons pas le courage.¹⁰⁶

The Conservatives judged that Mercier's policy of regular spending increases was a grave threat to preserving the fiscal resources of the province. They warned that the Liberal Nationalists were exposing Quebec to continued financial catastrophe and the only way to avoid this was to replace the government. To prevent fiscal calamity, the opposition proposed that:

Le gouvernement conservateur diminuera les dépenses. Son passé est une garantie pour le peuple qu'il accomplira cette promesse. En 1884, le gouvernement conservateur a diminué les dépenses de \$150,000. S'il a pu faire cette diminution alors, il pourrait facilement aujourd'hui diminuer les dépenses de \$500,000 en quelques années.¹⁰⁷

¹⁰⁶ Roy, op. cit., p. 67.

¹⁰⁷ Ibid, p. 72.

In 1891, the Conservatives were returned to power with a renewed commitment to reduce expenditures. In 1892, treasurer John Smythe Hall proceeded with the task of implementing "across the board" cuts to spending and in May of that year, he was pleased to report a reduction of over 1,200,000 dollars from extraordinary and ordinary operations. He added that: "...with a little more time, we will make a still further decrease by proper and judicious control of the expenditure".¹⁰⁸ Approximately one-third of the cuts, or over 400,000 dollars were taken from ordinary expenditures and consisted of the following items:

TABLE NO. 4-15
Reductions to ordinary expenditures, Quebec, 1891-1892

LEGISLATION	\$ 28,775
CIVIL GOVERNMENT	18,632
ADMINISTRATION OF JUSTICE	72,000
PUBLIC INSTRUCTION	29,290
AGRICULTURE, COLONIZATION AND IMMIGRATION	89,927
PUBLIC WORKS, ORDINARY	52,640
LUNATIC ASYLUMS AND CHARITIES	67,087
MISCELLANEOUS SERVICES	73,260
TOTAL REDUCTION	<u>\$431,611</u>

SOURCE: Budget Speech of the Honourable John Smythe Hall, Treasurer of the Province, in the Legislative Assembly of Quebec, May 20th, 1892, p. 34.

With the possible exception of the rise in annual interest payments, the provincial Conservatives were able to hold down expenditures until 1896, the year prior to provincial

¹⁰⁸ Budget Speech of the Honourable John Smythe Hall, Treasurer of the Province, in the Legislative Assembly of Quebec, May 20th, 1892, p. 33.

elections. At that time, there were significant increases to all items of expenditure. During the fiscal year 1896, the total ordinary annual expenditure increased by approximately 800,000 dollars, accounted for primarily by the following changes:

TABLE NO. 4-16
Increases to ordinary expenditures, Quebec 1891-1894

	Figures rounded (000's)
LEGISLATION	93,000
ADMINISTRATION OF JUSTICE	94,000
PUBLIC INSTRUCTION	27,000
AGRICULTURE, COLONIZATION AND IMMIGRATION	128,000
PUBLIC WORKS AND BUILDINGS	176,000
ASYLUMS AND CHARITIES	32,000
MISCELLANEOUS	125,000
INCREASE OF	<u>\$675,000</u>

SOURCE: Budget Speech of the Honourable A.W. Atwater, Treasurer of the Province, in the Legislative Assembly of Quebec, 9th December, 1896, p. 40.

This general rise in expenditure contributed to a substantial annual deficit in that fiscal year. These increases constituted an important departure from the course adopted by the provincial Conservatives when they first returned to office. As a consequence, the Liberals under Felix Gabriel Marchand, attacked the Conservatives for their return to what they considered the practice of extravagance. During the election campaign of 1897, the Liberals claimed that the late government broke their promise of preventing the appearance of deficits.

Looking to past Conservative administrations, the Marchand Liberals argued that: "Le régime actuel a dépensé sous la rubrique de dépenses ordinaires, \$1,027,855.22 de plus que sous le régime Mercier..."¹⁰⁹ Nonetheless, the Liberals noted that the Mercier administration had outspent the Conservatives on extraordinary operations by the sum of approximately 800,000 dollars. In short, while the provincial Conservatives considerably raised the level of ordinary expenditure in their final fiscal year, the Mercier administration was far more active on extraordinary expenditure. (One should note that the Conservatives transferred certain special expenditures on, for example, Public buildings to ordinary operations). In view of the increase in ordinary expenditure relative to extraordinary spending, the Liberals concluded that:

Le gouvernement actuel...n'a fait relativement aucuns travaux; néanmoins, il a trouvé moyen d'augmenter la dette par ses dépenses infructueuses et par ses malheureuses financières qui ont servi tout au plus à enrichir les banquiers et leurs amis, sans bénéfice aucun pour la province. Si, sous prétexte d'économie, il ne s'est engagé dans aucune nouvelle entreprise, d'un autre côté, par son imprévoyante politique financière, il a fait perdre à la province, un montant équivalent à celui qui a été dépensé par le gouvernement Mercier à titre de dépenses spéciales.¹¹⁰

The reaction of the Marchand Liberal government in 1897, was characterized by an unequivocal commitment to reducing and/or

¹⁰⁹ Roy, op. cit., p. 92.

¹¹⁰ Ibid, p. 93.

stabilizing expenditure over the next decade. It also marked the end of a long period of Conservative government and the beginning of provincial Liberal rule lasting for nearly four decades.

CHAPTER 5

RAILWAYS

A. General Overview

At the very outset of Confederation, the governments of Quebec and Ontario resisted the extensive financing of railways. With the excess debt question still unresolved, provincial administrators appeared reluctant to potentially burden themselves in much the same manner which brought about their pre-Confederation financial problems. Under the terms of the BNA Act, the central government was assigned the predominant role in economic development and in this regard the construction of national railways was considered a priority. But the development of national railways neither stifled the desire to expand existing regional/local railways nor deterred the hope of promoters and politicians who wished to establish new routes. As it was pointed out in the last chapter, for Quebec, railway expansion was intimately linked to the perceived need for colonization. Disparate sections of the province, it was believed, could be brought into contact through the creation of various railway networks. This, of course, required substantial capital which was not always easy to attract for the latter purpose.

In his book, Québec en Amérique du XIX siècle, Albert Faucher argues that geographic and economic considerations favoured railway development in the province of Ontario over that of

Quebec.¹ In order to understand the differential pattern of economic growth, it was essential to situate the two provinces within their broader North American context. Much of the province of Ontario benefited from its link to the most industrialized regions of North America and the larger metropolitan centres of the United States such as New York, Chicago, Pittsburgh and Buffalo. Relative to the American Mid-West and Ontario, the province of Quebec occupied a marginal position notwithstanding the importance of the Montreal metropolitan region.² Under such conditions, railway developers exhibited far greater interest in the economic prospects of Ontario as opposed to those in Quebec. A tremendous challenge confronted Quebec entrepreneurs given that most railway developers respected the geographic and technological limits which fostered the expansion of the transportation infrastructure.

Faucher points out that at the time of Confederation, Quebec had nearly 600 miles of railway while Ontario possessed approximately 1,400 miles. The Confederation arrangements did nothing to change this disparity and according to Faucher, the province of Ontario stood to benefit from the 1867 accord. Nearly fifteen years later, while Quebec had slightly more

¹ Albert Faucher, Québec en Amérique du XIX siècle: essai sur les caractères économiques de la Laurentie, Montreal: Fides, 1970, p. 44.

² Ibid, pp. 221-221.

than 1,800 railway miles, Ontario possessed approximately 3,500 miles.³ Assessing the progress achieved by Ontario in railway development, Faucher concludes that:

...la province se trouve, à la fin de siècle, toute tressillée de voies ferrées. Aucune région canadienne ne sera aussi bien dotée de chemins de fer que la section ouest de l'Ontario. Or presque tout ce réseau a été construit de 1855 à 1885...⁴

The economic and geographical advantages of Ontario emphasized by Faucher, reinforced the fiscal position of Ontario and helped that province to pursue railway construction on a sound financial basis. By the early 1870's, it was evident that Ontario emerged in a better position than Quebec to support railway aid projects through its accumulated surpluses. The province of Ontario proceeded to create a fund to finance railway operations. While Quebec managed to sustain a balance between revenues and expenditures in the early years, only limited funds remained from ordinary operations to finance large developmental or capital projects. Given its relatively insignificant accumulations, it would be extremely difficult for Quebec to substantially assist any railway enterprises without recourse to borrowing.

Railway development had a very significant political appeal both federally and provincially. This was widely acknowledged

³ Ibid, p. 48.

⁴ Ibid, p. 145.

by government representatives particularly around election time. But the financial management of the government contribution to railways was also politically important. From the early 1870's to 1896, the Ontario government was careful not to allow support for railways to create liabilities beyond that which the province's total ordinary revenues might support. Over the same period, however, Quebec pursued a different course by contracting numerous loans to finance a government takeover of certain railway lines and extensive subsidization of some fifty railway enterprises. The inability of Quebec's ordinary income to provide for such large funding, necessitated the establishment of extraordinary financial operations.

TABLE NO. 5-1
Expenditures on Railways (Ordinary and Extraordinary)
Quebec and Ontario, 1872 -1896

	1872-76 (3 fiscal years)	1877-86	1887-96
Quebec			
Q.M.O. & O. Railway	1,975,000	11,170,000	200,000
General Subsidies	740,000	2,290,000	7,500,000
Quebec TOTAL	2,715,000	13,460,000	7,700,000
Annual Average	640,000	1,346,000	770,000
Ontario			
(5 years)	1,700,000	2,700,000	2,040,000
Annual Average	340,000	270,000	204,000

SOURCE: Quebec: "Statement showing the yearly payments to subsidized and Government railways, to June 30th, 1896" in Quebec Sessional Papers, no. 2, 59 Vict., 1896, pp. 22-25. Ontario: "Report of the Royal Commission on the Financial Position of Ontario...", op. cit., p. 12.

From the table above, one can discern that between 1872 and

1896, the province of Ontario consistently reduced its outlay on railways as there existed a perception that it was exhausting its accumulated surplus of revenues over expenditures. As we shall see, both municipalities and private enterprise played a vital role in financing railways in that province.

The Quebec government massively outspent its neighbour on railway operations. From 1877 to 1896, the difference was highlighted by expenditure associated with the takeover of the Quebec, Montreal, Ottawa and Occidental Railway. With the sale of the Q.M.O. & O. Railway, the Quebec administration substantially increased general railway subsidies and thereby maintained an expenditure nearly four times greater than that of Ontario in this sector. While such spending had important financial ramifications for the province, administrators expressed a willingness to make certain sacrifices. In the mid-1880's, Quebec treasurer J.G. Robertson stated that:

At that time, the subject was perfectly understood and the universal feeling was that railways must be encouraged at all hazards, as being most pressing and important for the interest of the province, if we would keep pace with our sister provinces, and do our part in building up the Dominion.⁵

⁵ Budget Speech by the Honourable J.G. Robertson, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, May 2nd, 1884, p. 27.

B. Quebec

(1) 1869-1882

Historian Brian Young contends that the enthusiasm for railway development never dampened in Quebec in spite of the pre-Confederation financial experience.⁶ Given the province's large underdeveloped area, private capital was not easily attracted to the prospect of developing an extensive provincial railway network. As a result of this situation, by the end of the 1860's, the Quebec government provided a set of incentives in order to stimulate railway development. Aside from the funds provided to colonization railways, no direct financial assistance was extended to railways until the year 1874. Nonetheless, the provincial Conservatives offered large land grants to railway companies while in certain cases lending the province's credit to potential developers. In 1869, with the passage of the Quebec Railway Act, the administration limited the liability of railway company shareholders by permitting railways companies to borrow funds either in Canada or elsewhere at an interest rate not exceeding eight percent per annum. Railway companies could issue bonds, debentures or other securities granted for the sums which were borrowed and hypothecate, mortgage or pledge the lands, tolls, revenues and other properties of the company

⁶ Brian Young, op. cit.

for the repayment of principal and interest.⁷

In the following year, 1870, legislation was enacted by the Quebec government which granted certain lands in aid of railway companies. From the public lands of the province, a total of approximately 3,285,000 acres, in four sections of the province, were set aside for purposes of the legislation. Of this land, some 2,000,000 acres was to be granted to the North Shore Railway Company on the following conditions:

1. the railway shall have been completed and put in operation to the satisfaction of the lieutenant-governor in council who may nonetheless grant for each twenty-five miles of road completed grant a portion of the said lands proportionate in extent to such lengths of road and;
2. the lieutenant-governor in council shall appoint one-third of the directors of the said company and no city, town or municipality shall be represented by a greater number of directors.⁸

The imposition of the latter conditions, made it evident that in return for the large grant provided to the North Shore Railway, the Quebec government sought a fair degree of control over the company's operations.

Despite boasting their generous contribution to railway

⁷ Ibid, pp. 25-26. See also "An Act respecting Railways", [assented to 5th April, 1869], Statutes of Quebec, 32 Victoria, cap. 51, A. 1869, p. 162.

⁸ "An Act to provide for the granting of certain lands in aid of the Railway Companies therein mentioned" [Assented to 24th December, 1870], Statutes of Quebec, 34 Victoria, Cap. 20, 21, 1870, p. 94.

development during the 1871 election campaign, the Quebec Conservative administration noted that the main force behind railway construction should not be the provincial government. In his 1870 budget speech, while Quebec treasurer J.G. Robertson strongly encouraged railway investment, he maintained that funds to support this objective should emanate primarily from the private sector. Robertson concluded that:

It is often true that people look to government for pecuniary assistance to promote undertakings in which they are not willing to invest their own funds, and then blame the administration for want of enterprise and energy...when the fault lies with them or in the object they wish to promote.⁹

Robertson claimed that if the finances of government permitted, the administration would be pleased to aid many works of public utility which under existing circumstances, and with limited fiscal resources, they had to resist. The treasurer urged more self reliance and greater confidence in the province's resources as opposed to chronic dependence on government for assistance.¹⁰

Despite the treasurer's earnestly expressed sentiments, within only a few years, the Conservative administration was involved in considerable railway financing. The settlement of the excess debt was clearly an important factor contributing to the willingness of the government to offer direct financial

⁹ See Budget Speech of the Honourable J.G. Robertson, in DALQ, November 29, 1870, p. 70.

¹⁰ Ibid.

assistance to railways. The other critical consideration was the severe financial crisis that plagued the North Shore and Montreal Colonization Railroads, both of which had been heavily subsidized by the government.

In January 1874, legislation was enacted which marked the beginning of substantial post-Confederation monetary contributions to railways. By the "Act to provide for the granting of Aid to certain Railway Companies", money subsidies of up to 2,500 dollars per mile were extended to twelve railways.¹¹ The funding was conditional upon these railways agreeing to forfeit a major portion of the land grants which they had acquired under previous legislation. Therefore, the Act had the effect of converting land grants into money subsidies as the province believed it had the means to provide such assistance. The government also consented to providing further grants and loans upon completion by a subsidized railway of 25 miles of track. Debentures and bonds were to be held by the government as collateral security for any loan to a given company. In the following two years, railway subsidies were increased to 4,000 dollars per mile and as much as 6,000 dollars per mile in the case of certain railway

¹¹ "An Act to provide for the granting of Aid to certain Railway Companies", [Assented to 28th January, 1874], in Statutes of Quebec, 37 Victoria, cap. 2, A. 1874, p. 13.

companies.¹²

While the financial commitments made by the Conservative administration under the legislation were important, they did not constitute the main intervention made by the government on behalf of railways during the 1870's. The assistance provided to the North Shore and Montreal Colonization Railroad lines would surpass the combined government contribution made to all other railways. In view of the possible collapse of these two highly important unified railways, the provincial government decided that substantial injections of capital were necessary. Already, these companies had received municipal financial support and massive land grants from the provincial government. In 1874, treasurer J.G. Robertson announced that the North Shore and Montreal Colonization Railroads would receive 2,000,000 dollars in provincial government bonds in exchange for an equal share of the unified company's bonds. In addition to this, the administration would reacquire the previously accorded two-million acre land grant at one dollar per acre. These two transactions initially necessitated a loan of approximately 4,000,000 dollars which would oblige the Quebec government to make its first entry into capital markets

¹² "An Act respecting the construction of the Quebec, Montreal, Ottawa and Occidental Railway", [Assented to 24th December, 1875], in Statutes of Quebec, 39 Victoria, cap. 2, 1875, pp. 13-27.

since Confederation.¹³

As the government extended credit to these fiscally unstable railway companies, Robertson insisted that he did not wish to put the province into an unmanageable debt situation. The treasurer believed that with some sacrifices, the province could meet the payments it pledged to railway companies. At the time of the first important intervention on behalf of the unified railway, Robertson vowed that:

...quand je croirai que les demandes aux dépends du trésor excéderont ce que je trouverai raisonnable, s'il est impossible de résister à ces demandes et si le revenu de la province ne permet pas d'y acquiescer; j'en informerai la chambre et je remettrai mon portefeuille...¹⁴

Despite the administration's assistance, the financial problems of the two railways quickly escalated. Consequently, the government decided to intervene more directly and in November 1875, formally declared its takeover of the two railways. Many Conservative and Liberal politicians argued that a great deal of the province's material progress depended on these roads. Because the private sector seemed unable and/or unwilling to invest the necessary funds to complete the project, the administration was forced to undertake the

¹³ "An Act to provide for the granting of Aid to certain Railway Companies" in Statutes of Quebec, [Assented to 28th January, 1874], Cap. 2, 37 Vict., 1874, pp. 13-21.

¹⁴ "Discours du Budget" de l'Honorable Trésorier J.G. Robertson, 13 janvier 1874, in DALQ, session of 1873-1874, p. 138.

completion of the recently unified Quebec, Montreal, Ottawa and Occidental Railway.¹⁵

In his December 1875 budget speech, Robertson ominously warned that railway costs were much greater than originally anticipated and with full knowledge of the implications, the public would have to be willing to assume responsibility for the debt. He declared that the assistance provided to railways to that point greatly surpassed projections made only a few years prior. He conceded that subsidies had been granted to too many railways when it would have perhaps been wiser to limit the distribution of funds to a few important initiatives. The Quebec, Montreal, Ottawa and Occidental Railway was clearly included within a special category by the provincial Conservatives.¹⁶

Robertson acknowledged the general principle that as a rule railways were best suited to private enterprise. Yet, considering the Q.M.O. & O. Railway to be "exceptional", he felt that by using its credit to a limited extent the government could build the railway cheaper than private enterprise. The success of the railway would provide not only security for interest on the bonded debt, but a return to the

¹⁵ Speech on the Budget by the Honourable J.G. Robertson, Treasurer of the Province, in the Legislative Assembly of Quebec, December 6, 1875, pp. 26-32.

¹⁶ Ibid, pp. 24-26.

province and municipal corporations for their respective contributions. Robertson concluded that: "...we can show the people in England that we can build railways, run them and pay their interest and while it is a great benefit to us, they will run no risk themselves, and the interest and sinking fund will be as sure as any investment they can make".¹⁷

From the time the government announced that it was taking over the Q.M.O. & O. Railway, there was widespread fear that a very serious liability had been created, one which the Montreal Gazette felt would have the effect of "greatly crippling the resources of the province and injuring its credit". While the administration predicted that the proposed scheme would cost less than 10,000,000 dollars, others suggested the province might run up a debt as high as 16,000,000 dollars, resulting in annual interest charges of nearly one million dollars per year. With neither the possibility of greatly curtailing expenditure or significantly increasing income without making recourse to direct taxation, it was widely recognized that it would be extremely difficult to meet such an enormous burden.¹⁸

During the mid to late 1870's, the costs associated with the Q.M.O. & O. Railway steadily increased and the government was

¹⁷ Ibid, pp. 32, 52.

¹⁸ Ibid, p. 38.

in no position to make payments out of ordinary operations. As noted earlier, all government railway spending was classified as extraordinary expenditure. From 1874 to 1879, while the government spent approximately 8,200,000 dollars on the Q.M.O. & O. Railway, an additional 1,900,000 dollars was provided in subsidies to other railways. As the province was unable to meet these costs from ordinary revenue, two additional loans were contracted in 1876 and 1878 and a debt of over 10,000,000 dollars had been accumulated.

The debt and the construction of railways became a source of political controversy. During the 1878 election campaign, Liberal leader H.G. Joly stressed that the Conservatives had in a short time burdened the province with an enormous debt. Joly remarked that:

Le 1er juillet 1873, la province de Québec ne devait absolument rien à personne, et elle avait en caisse une somme disponible de un million de piastres!...Non seulement le surplus a disparu, mais ils ont réussi à créer une dette publique de onze millions de piastres!¹⁹

The provincial Liberals claimed that this debt was primarily the result of a railway policy which encouraged large scale speculation. After targeting municipalities for funds, the provincial government provided subsidies for questionable ventures. Boards of directors of several railway companies were occupied by friends of the government. Joly concluded

¹⁹ Jean-Louis Roy, op. cit., p. 30.

that:

Une fois les intérêts de chacun bien assurés, il ne reste plus à la compagnie qu'à se déclarer incapable d'aller plus loin, de vendre ses droits au gouvernement, qui pour ne point perdre ses avances, se trouve forcé de faire de nouveaux sacrifices...Douze à treize millions de piastres ont été dépensés de cette manière, et la province ne possède pas encore une seule ligne de chemin de fer respectable et complète.²⁰

The Conservatives displayed no regret over their intervention which they insisted was essential to the development of the province's railway network. Nonetheless, during the 1878 election campaign, they contended that it was critical for the government to take immediate steps to put its finances in order. To do this, above all else, the Conservatives proposed the sale of the Q.M.O. & O. Railway.²¹

The idea of selling the Q.M.O. & O. Railway gained momentum as costs associated with this venture continued to rise. During their brief term in office (1878-79), the provincial Liberals were unable to prevent an increase to the debt. In October 1879, the Conservatives once again formed the government. Upon returning to the post of treasurer, in his 1880 budget speech, J.G. Robertson contended that what he referred to as retrenchment and economy would have to move "...beyond mere talk around election time". He suggested that there were many persons who would have liked to see money spent freely in

²⁰ Ibid, p. 31.

²¹ Ibid, p. 38.

building railways with"...the most perfect indifference as to where the money was obtained, or how it was to be repaid, or whether it was ever paid or not".²² In a statement reminiscent of declarations made by the Conservative treasurer prior to his government's substantial commitment to railway financing, Robertson remarked that:

Our people heretofore have been too much inclined to rely upon the Government for assistance in almost every enterprise, without considering that they have a duty to perform as well as the Government.²³

The treasurer warned that if relief could not be obtained by the disposal of the Railway, other means would have to be found to deal with the debt.

In that same year, Robertson predicted that it would be possible with one final loan to complete the railway system without requiring further spending. Despite the loan of 1880, the impetus for the sale of the railway did not subside and it was a central theme in the 1881 election campaign. Led by J.A. Chapleau, the provincial Conservatives felt that the people should be proud of their support for the Q.M.O. & O. Railway which promised to contribute so greatly to the future prosperity of the province. He vowed to liquidate the debt through the sale of the Railway. Chapleau stated that:

²² Budget Speech delivered by the Honourable J.G. Robertson, Treasurer of the Province, in the Legislative Assembly of Quebec, 16th June, 1880, p. 30 and p. 34.

²³ Ibid, pp. 33-34.

Cette oeuvre du chemin de fer du Nord a coûté des sommes considérables. Nous avons dû, pour la construire, contracter une forte dette. Mais cette dette sera payée, et notre honneur sera sauvegardé sans qu'il soit besoin d'un sou de taxes nouvelles.²⁴

Rumours were being circulated that the Conservatives planned to sell the railway at a cost well below its estimated value. During the election campaign, Chapleau noted that the government had received offers for the railway and that it would never be sold for less than 8,000,000 dollars.²⁵

At the beginning of the year 1882, the Conservatives sold the Q.M.O. & O. Railway in two transactions. The net amount realized from the sale of the Q.M.O. & O. Railway to the Canadian Pacific Railway Company was 7,600,000 million dollars. As some of the payments were to be made over a number of years, by including interest in the final total, the figure swelled to nearly 8,000,000 dollars. Payments were to be made in the following manner: for the western portion of the railway, the Province would receive four million dollars less 400,000 dollars to be applied to the construction of work in the Montreal area. The total of 3,600,000 dollars would be paid off as follows:

²⁴ Roy, op. cit., p. 46.

²⁵ Ibid, p. 48.

TABLE NO. 5-2
Mode of payment for
Quebec, Montreal, Ottawa and Occidental Railway

March 1, 1883	100,000\$
March 1, 1884	100,000
March 1, 1885	100,000
March 1, 1886	100,000
March 1, 1887	100,000
March 1, 1888	100,000
After the 4th March 1902, on notice of 6 months	<u>3,000,000</u> <u>3,600,000\$</u>

For the sale of the eastern portion of the North Shore Railway, the net sum to be paid was 4,357,000, payable as follows:

On delivery of railway	857,000\$
After one year from delivery on notice of 6 months	500,000
After five years from delivery on notice of one year	<u>3,000,000</u> <u>3,357,000\$</u>

N.B. For more details on the manner in which the government applied the payments to its debt, see chapter 7.

SOURCE: "Memo: Showing the net amount realized by the sale of the Quebec, Montreal, Ottawa and Occidental Railway, under the two contracts ratified by the Legislature" in Budget Speech delivered by the Honourable J.G. Wurtele, Treasurer of the Province, in the Legislative Assembly of Quebec, May 15, 1882, p. 64.

It is difficult to estimate the exact loss which the Quebec government suffered as a consequence of the sale. Estimating the loss associated with the Q.M.O. & O. Railway at 5,910,252 dollars, the Department of Public Finance produced the following figures.

TABLE NO. 5-3
Estimated final cost on
Quebec, Montreal, Ottawa and Occidental Railway

Total Expenditure on Railway	13,947,341.05\$
Amount Received as refunds on account of construction and for materials sold	437,088.96
	<u>13,510,252.09</u>
Price of sale of railway	7,600,000.00
Balance	<u>5,910,252.09\$</u>

SOURCE: "Statement showing the money and land subsidies granted to railways, the amounts paid and the balances remaining unearned, etc. at the 30th June, 1896" in Quebec Sessional Papers, 50 Victoria, (no. 2), Table no. 10, A.D. 1896.

As a subsidy of 2,394,000 dollars granted by the Dominion for the contribution of the Q.M.O. & O. Railway was not paid out immediately, it was not deducted from the above balance. Nor do the figures presented by the government include the large interest payments made on loans associated with the Q.M.O. & O. Railway. After the sale of the railway, certain estimates placed the overall loss for the province at approximately 10,000,000 dollars.²⁶

The sale of the railway did not occur without reaction from the Opposition. The Liberals maintained that although they were in favour of the sale, they rejected the terms under which the arrangements were made. Liberal Félix Gabriel

²⁶ Quebec Sessional Papers, 50 Victoria, (no. 2), Table No. 10, A.D. 1896. For more details on the manner in which the government applied the railway payments to its debt, see Chapter 7.

Marchand contended: "On a vendu cette propriété dans les plus mauvaises circonstances. On a cédé ce chemin pour 7.6 millions quand on aurait pu avoir 8.5 au moment même de la vente".²⁷

The Quebec Conservative administration maintained that the sale of the Railway would likely prevent the procurement of new loans as well as providing the possibility of avoiding new taxation. Once the sale of the Q.M.O. & O. Railway was concluded, Quebec politicians made an effort to put a positive face upon the original initiative. They maintained that irrespective of the debt which had been accumulated as a consequence of the government investment, it was difficult to assess the value of the enhanced railway network to industry in the province. In the mid-1880's, Quebec treasurers noted that the "temporary" financial embarrassment was more than compensated for by the return which the public obtained from this railway. As one treasurer concluded:

Ces districts éloignés ont été mis en communication facile avec nos cités et nos villes, les prix des produits de ferme ont été augmentés, toutes les choses dont le cultivateur se fournit dans les villes ont diminuées de prix, et des manufactures de toutes sortes ont été établies ou encouragées.²⁸

²⁷ See Speech of Félix-Gabriel Marchand in DALQ, May 27, 1884, p. 1400.

²⁸ DALQ, 1885, pp. 422-423.

(ii) 1883-1896

With the sale of the railway, the Quebec administration expressed its faith that the financial condition of the province would be stabilized. But the government's commitment to railway financing did not end with the sale of the Q.M.O. & O. Railway. The Conservatives had initially managed to considerably diminish payments to railways other than the Q.M.O. & O. Railway and in the years 1882 and 1883, 77,630 dollars and 99,057 dollars were granted respectively for general subsidies. This constituted a substantial reduction from previous years. Nonetheless, almost immediately following the sale of the Q.M.O. & O. Railway, the provincial Conservatives once again presented indirect forms of railway aid to support the construction of existing and new lines. In May 1882, legislation was enacted to grant subsidies for the construction of certain railways. Apart from an additional 1,000 dollars per mile provided to the Quebec and Lake St. John Railway, the government's assistance was highlighted by important land grants to approximately fifteen railways. The legislation served the objective of recovering future income from the lands as the recession appeared to subside while providing badly needed funds to certain railways and the land value estimated at 70 cents per acre, half was to be paid upon conversion and the other half as the land was sold. While the government fixed limits on the value of the lands, the transaction would ultimately involve a sum of 3,538,500

dollars.²⁹

In the year 1884, the provincial Conservatives presented legislation which promised to guarantee interest on the bonds issued by a given company in exchange for the subsidies paid, or to be paid, to a railway. The provincial administration stipulated that whenever converted into a guarantee, the interest to be allowed would in no case exceed the rate accorded by the banks on the amounts deposited with them by government to cover subsidy.³⁰

The prior measures reflected the Conservative administration's commitment to hold down all expenditures including spending on railways, at least in the short term, during the mid-1880's. Still, at that time expenditures on railways climbed from their earlier level and this was characterized almost entirely by subsidies provided for two railways, the Pontiac and Pacific Junction and the Quebec and Lake St. John Railway. From 1875 to 1887, spending on these two railways accounted for between 75 to 90% of overall expenditure on this item.

²⁹ "An Act to grant subsidies for the construction of certain railways", [Assented to 27th May, 1882] in Statutes of Quebec, 45 Victoria, cap. 23, 1888, p. 111.

³⁰ "An Act respecting railway subsidies and the guarantee of interest by the province of Quebec", [Assented to 10th June, 1884], in Statutes of Quebec, 47 Victoria, cap. 70, 1884, p. 188.

From 1867 to 1886, aside from the Q.M.O. & O. Railway, spending on railways accounted for approximately 3,200,000 dollars. Prior to the election of 1886, the Conservatives offered the possibility of significant direct aid to railways by presenting legislation to convert into money subsidies, the land grants provided under the legislation of 1882.³¹ With the defeat of the Conservatives, the Liberal-Nationalist Coalition government led by Honoré Mercier, assumed responsibility for the pursuit of certain railway ventures created by the previous administration. When in opposition, the Liberals had frequently denounced the government for the dangerous direction in which they had taken the population as a result of their railway financing. Once in power, it soon became clear that during the late 1880's, the Mercier administration was not as committed to reducing expenditures in this area as the provincial Conservatives appeared to have been earlier in the decade.

In his 1887 budget speech, Quebec treasurer Joseph Shehyn criticized the railway subsidies legislation passed by the Conservatives prior to the election. Shehyn contended that the conversion of the land grants to money subsidies would necessitate slightly over 1,500,000 dollars in the immediate term. Shehyn remarked that:

³¹ "Acte pour mieux aider la construction des chemins de fer" [Sanctionné le 21 juin 1886], Statuts du Québec, 49-50 Victoria, Cap. LXXVI, p. 200.

At first sight, one is inclined to believe that the sale of these lands will go far to liquidate the debt resulting from the legislation under consideration; but on looking more closely into what the sale of the lands will bring and what it will cause us to lose in our revenue from woods and forests, a different conclusion is quickly reached.³²

Shehyn maintained that the cost of surveying the land, its market value and the fact that not all of the lands could be sold in the near future would mean that the province could not rely on the sale to "...wipe off the capital of the pecuniary liabilities which {were} contracted...".³³ He further concluded that the administration possessed no special funds to meet the obligations brought about by the conversion. The treasurer concluded that:

Some companies are pushing ahead quickly - others slowly. Some have not even effected conversion of their land grants into money subsidies. Nevertheless, these companies always succeed ultimately in establishing their right to the subsidies which have been granted to them. These grants...are obligations which will have to be met some day or another.³⁴

Despite Shehyn's concerns, the Mercier administration showed little restraint in furnishing new railway projects with either land or money subsidies. Not entirely due to the proceeds from the conversion beginning in 1887, annual

³² Budget Speech by the Honourable Joseph Shehyn, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, 12th April, 1887, p. 38.

³³ Ibid, p. 39.

³⁴ Budget Speech of the Honourable Joseph Shehyn, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, 1887, p. 40.

spending on railways increased considerably. In that year, the expenditure rose over 700,000 dollars and in 1889 it reached a height of over 1,700,000 dollars.

The Mercier government pursued a very liberal railway policy during its term. This was made evident in 1888 when the administration submitted legislation which offered both money and land subsidies to several railways.³⁵ The administration particularly demonstrated its commitment to railways which were located in undeveloped districts. In one such case for example Mercier remarked that:

...l'entreprise jusqu'ici n'a pas fait de progrès. Nous comprenons que notre devoir est de l'aider pratiquement et non plus seulement par des promesses quelques séduisantes qu'elles puissent être...Le temps de l'action est arrivé.³⁶

Mercier stated that while he would have liked to contribute larger sums for railways, he hoped to respond favourably to further requests in the next fiscal year. The Premier suggested that the administration was not acting imprudently and that as the province's financial situation was improving, Mercier felt the circumstances permitted a more liberal railway policy. He concluded that:

Nous sommes décidés à pousser la province dans la voie du progrès. Il faut qu'elle s'affirme et pour cela il ne faut pas craindre de faire des

³⁵ See Speech of Mr. Mercier in DALQ, 6 juillet 1888, p. 1460.

³⁶ Ibid, p. 1475.

sacrifices.³⁷

The Conservative opposition expressed its support for the series of railway subsidies extended by Mercier. Opposition spokesman remarked that the promotion of railways was the duty of both political parties. One Conservative spokesman noted that: "le pays verra avec plaisir le gouvernement venir couronner la politique de ses adversaires, quant à ce qui regarde les chemins de fer".³⁸

By the year 1890, the Conservative opposition began to attack the Mercier administration for increasing the province's debt. Such criticism could not be made without challenging the increases to railway expenditures. Treasurer Joseph Shehyn reminded the opposition that they were in favour of a liberal railway policy just prior to 1887 as they voted for the future railway expenditures amounting to approximately 2,000,000 dollars. For its part, the Mercier administration provided 3,000,000 dollars in railway subsidies in the year 1888. Shehyn noted that the Conservative opposition ignored their share of the total expenditure. If the Conservatives wished to reduce railway spending, Mercier suggested they should propose eliminating subsidies which they themselves had

³⁷ Ibid, p. 1476.

³⁸ Ibid, p. 1481.

approved.³⁹

Prior to the 1890 election, Mercier once again submitted legislation providing additional money and land grants to certain railways.⁴⁰ During the election campaign, the government boasted its progressive intervention on behalf of railways which, it added, was acknowledged in many quarters. In May of that year, the Mercier administration was easily returned to power. Following the election, Premier Mercier expressed concern about the need to procure funds to meet railway liabilities. While it was difficult to say approximately when certain liabilities would be due - as the subsidies depended on the progress of a railway - it was necessary to make provision for the whole sum allocated. To ensure this could be done by the end of the year 1890, the administration enacted legislation permitting if necessary, the borrowing of up to 10,000,000 dollars. At the same time, Mercier once again provided railway subsidies to approximately twenty railway lines. This would prove to be the last initiative of the Mercier administration in this regard.⁴¹

³⁹ Budget Speech delivered by the Honourable Joseph Shehyn, Treasurer of the Province, in the Legislative Assembly of Quebec, on the 21st February, 1890, p. 9.

⁴⁰ "An Act respecting grants to certain railways" [Assented to 2nd April, 1890], in Statutes of Quebec, Vict. 53, 1890, pp. 603-605.

⁴¹ "An Act respecting certain subsidies to railways and other companies and undertakings" [Assented to 30th December, 1890], in Statutes of Quebec, 54 Victoria, Cap. 88, 1890, p.

In the year 1891, Liberal politicians were charged with illegally taking payments from a certain railway company. As a result, the administration was forced to resign and the provincial Conservatives under L.O. Taillon were asked to form a new government. Shortly thereafter, an election was called and in 1892, the Conservatives returned to power. Inspired by the objective of Conservative treasurer J.G. Robertson who considered it essential to curtail expenditure, Premier Taillon and his treasurer John Smythe Hall were committed to reductions in spending, which included railway cuts. Nonetheless, existing commitments to finance a number of railways made short-term spending reductions a difficult accomplishment for the Taillon administration. During the six fiscal years 1891 to 1896, railway expenditure accounted for approximately 4,500,000 dollars or an average of over 800,000 dollars per year. Only in 1896, prior to a provincial election, does one observe a sharp reduction in railway spending which amounted to approximately 250,000 dollars in that year.

In his budget speech of November 1895, Premier L.O. Taillon reaffirmed the government policy aimed at balancing the budget. In pursuing this objective the Premier maintained that unless some urgency existed no new public works would be

initiated.⁴² Therefore, he concluded that no new subsidies should be offered to railways. Despite this declaration, the Conservatives did provide subsidies to certain new railways and were committed to the completion of projects that were already in progress. Both Taillon and his successor Conservative Premier E.J. Flynn blamed the Mercier administration for having voted money and land subsidies which obliged the Conservatives to confront considerable railway expenditures during their term in office. As E.J. Flynn remarked:

...pour donner à chacun son dû, pour établir clairement et parfaitement les responsabilités de chaque parti d'abord dans l'octroi de ces subsides, puis ensuite dans leur conversion en argent. J'ai démontré encore que la politique du Parti Conservateur avait été la prudence et la modération tandis que la politique du Parti Libéral a été l'extravagance poussée jusqu'à ses extrêmes limites. De fait des statistiques que j'ai citées, il ressort avec la plus grande évidence que les subsides que nous sommes appelés à régler aujourd'hui proviennent en grande partie de l'administration Mercier.⁴³

In January 1895, the Conservatives introduced legislation aimed to a certain extent at effecting a savings on commitments previously made to a number of railways. The "Act respecting railway subsidies" contained the following preamble:

Whereas under present circumstances, it is impossible for the Government of this Province to

⁴² Jean Boucher edit. DALQ, Speech of L.O. Taillon, 29 décembre 1896, session of 1896-1897.

⁴³ Ibid, p. 315.

grant new subsidies to railways: but it is in the general interest that certain lines be finished within the shortest delay, as otherwise the moneys that have been paid therein will have no appreciable result."⁴⁴

The railway legislation proposed a reduction of the second 35 cents due to certain railways which under earlier legislation, had involved the conversion of land grants into money subsidies. Under the original legislation, this sum was due upon the sale of the converted lands. The 1895 Act provided for immediate payment at a maximum of 17.5 cents or half the total sum allocated so as to save the administration a considerable amount over the longer term while offering badly needed monies to certain railway companies. Most railway companies agreed to the terms of the legislation which created in the year 1895 a large annual outlay for railways of over 850,000 dollars in 1895.

During the period in which the Conservatives were attempting to eliminate outstanding railway commitments, they argued that the Mercier administration bore the greatest responsibility for such expenditures. Figures were produced which indicated that of all the land subsidies which were extended to railways, over fifty percent were provided by the Mercier administration. The largest share of the settlement provided for railways under the 1895 legislation was, according to the

⁴⁴ "An Act respecting railway subsidies" [Asserted to 12th January, 1895], Statutes of Quebec, 58 Victoria, Cap. 2, 1895, p. 19.

Conservatives, inherited from the Mercier administration.

E.J. Flynn concluded that:

Arrivons à 1890. C'était le temps où l'on faisait des largesses en fait de subsides aux chemins de fer. Nos adversaires étaient au pouvoir, et bien que l'écho de leurs dénonciations contre nous à propos de notre politique de chemins de fer, résonnât encore aux oreilles de la population de cette province, ils ne craignaient pas de s'engager dans la voie de subventions nouvelles et même d'aller beaucoup plus loin que nous.⁴⁵

The Liberal opposition denounced the administration's effort to lay blame for the major portion of railway expenditure on the Mercier government. Attributing the entire expenditure for the Q.M.O. & O. Railway to the Conservatives, former Liberal treasurer Joseph Shehyn argued that the Mercier administration's total share of overall railway spending was much less than the amount being suggested by Conservative officials.⁴⁶

Shehyn had admitted that the Liberals had favoured a generous railway policy and he recognized that the province had made great sacrifices for railway development. But, he added that they were indispensable, for without government assistance, Shehyn maintained that many railway companies would not have obtained the capital necessary toward the completion of their projects. Moreover, if the Liberals did not continue to

⁴⁵ Speech of E.J. Flynn in Jean Boucher edit., DALQ, 29 décembre 1896, session of 1896-1897, p. 297.

⁴⁶ See Speech of Joseph Shehyn in Jean Boucher edit., DALQ, 26 novembre 1895, session of 1895, p. 180.

subsidize projects which were in progress, much of the railway network and the regions which it served would have been unproductive. Shehyn concluded that:

...sans un système de voies ferrées, que serait devenue notre province? Elle aurait été dans un isolement complet comparée aux autres provinces; les avantages qui devaient en résulter eurent été retardés indéfiniment.⁴⁷

Shehyn's declaration suggests that there was a degree of continuity in the provincial Conservative and Liberal party's railway policies.

Some months prior to the provincial election of May 1897, the Conservatives under Premier E.J. Flynn proposed railway legislation which involved a limited number of subsidies to new companies. This was perceived to be a major departure from the policy adopted vis-a-vis railways under the Taillon administration. Provincial Conservatives argued that they were following the spirit and traditions of their predecessors who were guided by the need to be cautious while respecting railway commitments made by the administration. Financial circumstances had changed since the end of the Mercier administration and Flynn believed this warranted a slight shift in the policy of railway financing. The Premier concluded that:

Une administration prudente, économe et toute d'affaire a rétabli l'équilibre dans notre budget, pour l'année 1896, et nous croyons que nous devons

⁴⁷ Ibid, pp. 179-180.

donner un peu plus de développement à la politique des chemins de fer.⁴⁸

The Liberal opposition attacked the Conservatives for having repudiated the approach to railway spending adopted by L.O. Taillon. They added that while the administration proposed to support certain railways that were of lesser importance it neglected other far more vital railway enterprises. The Liberals presented a motion in view of the government's proposed railway legislation in the Legislative Assembly which highlighted the Conservatives break with previous policy. After substantial debate, the motion of the opposition was defeated and the Conservatives enacted their railway legislation.⁴⁹

With the defeat of the Conservatives in the election of 1897 and the victory of the Liberals under Felix Gabriel Marchand, spending on railways decreased dramatically toward the end of the 1890's and remained at a reduced sum during the beginning of the twentieth century. The Liberals were the first to act on the widely held view that only by reducing railway expenditures, irrespective of the political consequences, could the province truly hope to balance its budget. In effect, the "politics of finance" assumed greater importance

⁴⁸ Ibid, p. 313.

⁴⁹ "An Act respecting Railway Subsidies" in Statutes of Quebec, [Assented to 9th January, 1897], 60 Victoria, Cap. 4, 1897, p. 24.

by the end of the century than did railways politics.

C. Ontario

Despite their cautious approach to their finances, in 1871 the Ontario Conservatives claimed that there was no reason to withhold their entire surplus and proposed that a portion of it might be committed to developing the resources of the province. Both Ontario political parties recognized the public's yearning for the construction of railways. Ontario Premier Sanfield Macdonald, was considered an "unscrupulous opponent" of government aid to railways and he frequently mentioned that such enterprises were the cause of the debt situation and financial embarrassment of the pre-Confederation period. Nonetheless, the Premier suggested that the proper management of railway funding could prevent any such reoccurrence.⁵⁰

The existence of a significant surplus likely excited province-wide railway fever. As the excess of revenue over expenditure increased, the administration's mere mention of possible railway aid brought a deluge of applications for financial assistance to the fore. Other factors contributed to enhancing the climate for railway development. Summing them up, the Globe referred to the "spirit of enterprise which pervades the Province...the growing appreciation by the

⁵⁰ Globe, February 8, 1871, p. 3.

municipalities of the advantage of improved means of communication, the easy condition of the money market and the encouragement given by the Government".⁵¹ In short, it appeared at that time as though Ontario was promoting railway assistance under extremely favourable economic and political circumstances.

In February 1871, the Ontario provincial Conservatives established a Railway Aid Fund by which half of their three million dollar "cash" surplus - 1.5 million - would be set aside for "bona fide" railway enterprises. The government proposed to offer more assistance in areas where there was less settlement and more limited private funding. Despite the commitment toward railways with greater needs, the government insisted that there be as little reasonable doubt as possible that subsidized railway lines would eventually be completed. Such proof would be established by the amount of subscribed capital for a given project, together with any bonuses or loans from municipal corporations and the proceeds of bonds to be issued or authorized by the railway's charter.⁵²

Some suggested the best aid to railway enterprise would be land grants for developers. The Toronto Globe pointed out that millions of acres were distributed by the Quebec

⁵¹ Globe, February 20, 1872, p. 2.

⁵² Globe, February 8, 1871, p. 2.

government to railway entrepreneurs in just that manner.⁵³ As noted earlier, in 1870, for example, the Quebec administration provided the North Shore Railway with two million acres of land in a pro-rata basis, that is as the road was built. Within a few years, the government reacquired the land at a cost of one dollar per acre. In the wealthier province of Ontario, there was fierce resistance to offering territory to either railway developers or promoters. Such land grants, it was held, were likely to be employed for speculative purposes and thereby potentially deprive a province of significant future timber and mine revenues. Unlike Quebec, the province of Ontario, with its more substantial surplus funds, seemed to be in a better position to pursue railway development without sacrificing territory as an incentive.

While it appeared that Sanfield Macdonald's administration had little intention of loosely disposing of railway monies, the Ontario Liberal opposition made important political gains by protesting against the discretionary manner in which some of the funds were distributed. Opposition Liberal leader Edward Blake, wondered how the distribution scheme took into account the province's important sectional interests? He suggested that railway aid should be more closely tied to the financial position of Ontario's municipalities. A certain financial disequilibrium existed which placed some municipalities at a

⁵³ Ibid, p. 3.

distinct advantage in pursuing railway development. The cities of Toronto, Hamilton and to a lesser extent London, were focal points for provincial assistance to railways and in the early 1870's, Western Ontario received greater funding than Eastern Ontario.⁵⁴

With the electoral defeat of Sanfield Macdonald, the direction of the government's railway funding was altered by the Liberals. As Ontario annual surpluses continued to grow, the debate over the provincial government's role in railway development further intensified. In the early 1870's, Premier Oliver Mowat studied two options for the disposition of a portion of the accumulated surplus both of which had important ramifications for railway construction. Aside from direct subsidization of certain railways, the government considered the possibility of reducing the debt of municipalities to restore their credit and henceforth their fiscal capacity. By clearing much of the municipal debt, the Ontario government recognized that it would stimulate the development of local railway lines. Many Ontario towns were eager to become important railway centres and looked to private and/or state support in pursuit of this end.⁵⁵

⁵⁴ See statement made by the leader of the Liberal opposition, Edward Blake, in Globe, February 8, 1871, p. 3 and Margaret Evans, op. cit., p. 432.

⁵⁵ Margaret Evans, op. cit., p. 436.

In 1872, the Blake administration contributed an additional 400 000 dollars to the 1,500,000 dollars already set aside by Sanfield Macdonald under the Railway Aid Fund. In that same year, Liberal Premier Blake established the Railway Subsidy Fund through which twenty annual instalments of 100 000 dollars - a total of 2,000,000 dollars - would be paid over a given term of years for interest on the debentures of new railways. This arrangement would not involve the province in liability beyond the extent of the amount appropriated. Moreover with regard to the proportion of capital raised by bonuses or on stock, it would be easy for a company enjoying a moderate degree of prosperity and assisted by capital upon which over that period it paid nothing by way of interest, to assume in due time the discharge of its own responsibilities. Before receiving provincial support, the Mowat administration generally required railways demonstrate that they operated on a sound financial basis. In 1874, legislation was passed which attached subsidies to the number of miles completed by a railway.⁵⁶

By the mid-1870's, a substantial portion of the Railway Aid Fund had been exhausted and it remained unclear as to just how far the Mowat administration would be willing to employ its

⁵⁶ Ibid.

ordinary expenditures towards railway financing.⁵⁷ Mowat was concerned with ensuring that assets exceeded liabilities and when, for example, additional grants to railway were extended, the administration was careful to avoid jeopardizing its accumulated surplus. While most contemporary accounts of the Mowat government stress its generosity towards railway development, the administration clearly maintained limits on its spending and was careful about the distribution of funds. In his 1877 budget speech, Ontario treasurer Adam Crooks stated that there had been no wiser policy of expenditure on public funds than that deployed on railways. Provincial funding, he added, provided only a small portion of the cost which went towards the completion of a large number of railway miles. Of the 22 railways which received grants from the Ontario government, by 1877, half had completed the total mileage projected and therefore obtained full payments from the province. He noted that a 3,000,000 dollar investment by the Ontario administration had generated 33,000,000 dollars of railway expenditures from all sources combined.⁵⁸

Crooks pointed out that municipalities had voluntarily indebted themselves by nearly 7,000,000 dollars for railway

⁵⁷ Speech of the Honourable S.C. Wood, Treasurer of the Province delivered in the Legislative Assembly of Ontario, 29th January, 1880, p. 9.

⁵⁸ Financial Statement of the Honourable Adam Crooks, Treasurer of the Province of Ontario, delivered in the Legislative Assembly of Ontario, January 10th, 1877, p. 9.

purposes. The provincial relief for municipalities provided earlier in the decade was believed to have stimulated such enterprise. This latter measure had an important bearing, the treasurer concluded, upon the financial position of Ontario and its future intervention with regard to railway financing.⁵⁹

A concern persisted regarding increased competition between municipalities for railway lines. Given the advantage of wealthier municipalities, it was felt necessary to aid lesser developed areas and as a result, particular roads were singled out for special aid in 1876, 1877, 1878 and 1881. In 1877, certain Crown lands were set aside in the relatively unsettled areas, a part of which could be used for grants, and the remainder sold so as to create a land subsidy fund from which the Mowat administration might obtain a return on its contribution to these railways. By the 1890's, the vast majority of the province's railway funding went towards the expansion of the northern frontier, the area which would eventually become the location of the province's first publicly owned railway venture.⁶⁰

⁵⁹ Ibid, p. 10.

⁶⁰ Evans, op. cit., p. 432. See also summary of Ontario railway policies in Budget Speech of the Honourable H.R. Harcourt, Treasurer of the Province of Ontario, in Legislative Assembly of Ontario, 19th February, 1892, p. 9.

With the emergence of annual deficits, beginning in the mid-1870's and persisting through the 1880's, the Mowat administration looked at ways of correcting the financial situation without resorting to substantial cuts in such developmental expenditure as railways. In 1884, the government passed legislation which permitted the deferral of certain railway obligations. The "Act to authorize the substitution of terminable annuities for Railway Aid Certificates" empowered the government to retire existing and future railway certificates by granting terminable annuities not exceeding a term of forty years. The charges emanating from the sale of annuities would be applied to the revenues of the province. Under the Act, the provincial treasurer was authorized to sell annuities and exchange them for certificates held by railway companies.⁶¹ The government took the view that with current revenue, they could not pay the 2,000 to 4,000 dollars a mile granted to certain railways at that time.

The introduction of annuities met with a fierce protest from the political opposition which contended that the consequent liability that had been established was not properly

⁶¹ "An Act to authorize the substitution of terminable annuities for Railway Aid Certificates" [Assented to 25th March, 1884], in Statutes of Ontario, 47 Victoria, cap. 31, 1884, p. 92.

classified.⁶² In 1885, Ontario treasurer A.M. Ross insisted that as the annuities did not constitute present liabilities, they could not be considered ordinary public debt. The administration maintained that by selling annuities, not a single dollar was being added to the province's liabilities.⁶³ Another treasurer described the operation as a postponement, on the occasion of each sale, of the railway liability which was commonly agreed to by the Legislature during the "pioneer days of the province".⁶⁴

The opposition insisted that the Mowat administration was borrowing money to meet railway payments in order to disguise both annual deficits and the general liabilities. They contended that while short-term relief had been obtained, annual annuity charges which reached 20,400 dollars in 1885, would continue to rise. The Ontario Conservatives urged the government to make a vigorous effort to make all railway payments without recourse to the sale of annuities.⁶⁵

The government was clearly vulnerable to the charges made by

⁶² Toronto Daily Mail, February 19, 1886, p. 2.

⁶³ Financial Statement of the Honourable R. Harcourt, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, 18th February, 1897, p. 13. For further discussion of the classification of annuities, see Chapter 7.

⁶⁴ Ibid.

⁶⁵ Ibid.

the opposition. They pointed out that the annuities were not intended to be sold every year rather when it was necessary to meet railway payments.⁶⁶ From 1884 to 1896, annuities were employed in seven of the intervening fiscal years. The government was pleased that from 1888 to 1890 and 1893 to 1894, they were able to retire maturing railway certificates with ordinary revenues. During the 1890's, a vigorous effort was indeed made by the Liberals to liquidate railway obligations with a view to reducing expenditures. In 1891, the treasurer reported that the final instalments were paid to six railways, leaving fourteen lines still owed government assistance. He added that in the next ten years, more railways would be paid in full to further reduce the remaining commitments.⁶⁷ This activity was reflected in the ordinary budget where between 1891 and 1892, approximately 100,000 dollars less was paid in railway aid.

The average expenditure on railways between 1892 and 1896 was approximately 160,000 dollars, a sum which remained well below the early allocations provided for railway aid during the previous decade. Clearly, as the immediate post-Confederation period gave rise to substantial activity in the area of

⁶⁶ Budget Speech of the Honourable A.M. Ross, Treasurer of the Province, in the Legislative Assembly of Ontario, 13th February, 1885, p. 8.

⁶⁷ Budget Speech of the Honourable R. Harcourt, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, 19th February, 1892, p. 10.

railways, the decline of the surplus resulted in the reduction of annual spending on railways. Still, in the 1890's, Ontario treasurer H.R. Harcourt expressed his confidence that the province had successfully fulfilled its commitment to railway construction. He concluded that:

...we have without difficulty or embarrassment met these large railway obligations, that they are rapidly decreasing in amount and that those yet to mature are very small as compared with those which we have already paid.⁶⁸

Despite the reduction in railway spending during the 1890's, when considering the years 1892 to 1896, Harcourt was quite satisfied with the government's contribution to the expansion of the province's railway network.

The Ontario administration made its first major railway investment with the development of the Temiscamingue and Northern Ontario Railway. Early in 1902, the T & N.O. Railway became the province's first government owned railway. The project originated with the desire to expand settlement into Ontario's northern frontier through railway construction. From 1880 to 1900, a number of railway initiatives for northern development were proposed by private railway entrepreneurs. Although railway charters were extended, the stability of the existing companies was extremely suspect. Still, the desire for railway development into the province's Northern frontier did not subside. The North, stated Premier

⁶⁸ Ibid., p. 11.

George W. Ross in 1900, must be developed "...because it was only through the medium of New Ontario that the Province could maintain its foremost position in the Dominion".⁶⁹ In 1890, a Royal Commission looking into the mining industry recommended the construction of railways into the mining districts.⁷⁰

During the 1890's, Toronto's financial elite was not prepared to invest the amounts required to build a railway into the North. The lack of private capital caused the provincial government to consider assuming responsibility for northern railway development. In 1900, surveyors reported that there was a "veritable storehouse of wealth" in the North. In the following year, Premier Ross maintained that:

...the government should proceed with its plans to open up New Ontario by trunk colonization roads and railways in order to make homes for the sons of Ontario, who otherwise might seek a home in another province or under a foreign flag.⁷¹

In his study of the T. & N.O. Railway, Albert Tucker contends that once the government was committed to the project, it confronted the challenge of arranging for its financing. Prior to that time, Tucker suggested the assertion of provincial rights was combined with persistent economy in all

⁶⁹ Albert Tucker, op. cit., p. 6.

⁷⁰ Ibid., p. 17.

⁷¹ Ibid., p. 7.

forms of government expenditure. The province had no debt, he added, and had never called for a public loan. Under these circumstances, Premier George Ross made the assumption that loans could be floated in the form of railway bonds not based on public taxation but on the assets provided from land sales and the anticipated revenue of the railway. Raising the initial capital, however, often proved more difficult than was anticipated by the government.⁷²

In a comparison with Ontario, Lomer Gouin pointed out that with the construction of the Temiscamingue and Northern Ontario Railway, the province was adopting the same strategy as Quebec in view of the failure of the federal government to assume responsibility for the financing and/or construction of railways. Gouin concluded that:

...en effet, ne vient-il pas d'entreprendre la construction de la route du Témiscamingue, au coût probable de quatre ou cinq millions, comme nous avons entrepris nous-mêmes la construction de la ligne du Nord après avoir vainement tenté de vaincre l'apathie du pouvoir central.⁷³

Despite the similarity pointed out by Gouin, in terms of government intervention, neither the circumstances under which the projects were pursued nor the results were analogous. While the Quebec government bailed out financially troubled railway operations, the Ontario administration was pursuing a

⁷² Ibid., pp. 25-26.

⁷³ Gouin, "Question Actuelle...", op. cit., p. 56.

project believed to offer excellent financial prospects. This was clearly reflected in the financial results of the two railways which had an important bearing on the overall situation of each province.

D. Conclusion - Quebec vs. Ontario

Commenting on the fiscal evolution of the two provinces, in his 1880 budget speech, Ontario treasurer, S.C. Wood attributed the huge debt accumulated by the Quebec government to railway expenditures. Wood maintained that his neighbour province had assumed burdens that might have been carried by its municipalities. He similarly believed that Quebec's government allocated funds for railways that should have been undertaken by private capital. This notion was originally supported by certain Quebec Liberals in the early 1870's. Indeed, one time Liberal leader H.G. Joly stated that:

Au lieu de traiter les chemins de fer comme des entreprises commerciales, ainsi qu'on le fait dans la province d'Ontario, et de leur accorder une aide proportionnée aux sacrifices personnels des promoteurs et à ceux des municipalités intéressées, on en a fait un engin de spéculation et de corruption. Aussi voyez la différence... La province est couverte d'un réseau ferré magnifique, et Toronto menace de déposséder Montréal de son titre de métropole commerciale du Canada.⁷⁴

Referring to figures from a federal report of 1878, S.C. Wood showed the critical distribution of railway funds between the two levels of government and private enterprise:

⁷⁴ Roy, op. cit., p. 31.

TABLE NO. 5-4
Provincial, municipal and private expenditures on railways
Quebec and Ontario, 1867-1878

TOTAL EXPENDITURE ON RAILWAYS

Quebec	20,255,000	Ontario	24,430,000
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PROVINCIAL GOVERNMENT AID (DIRECT AND SUBSIDY)

Quebec	9,725,000 (48%)	Ontario	2,890,000 (12%)
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MUNICIPAL AID

Quebec	3,530,000 (17%)	Ontario	7,140,000 (29%)
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PRIVATE CAPITAL

Quebec	7,000,000 (35%)	Ontario	14,400,000 (59%)
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SOURCE: Financial Statement of the Honourable S.C. Wood, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, January 29th, 1880, pp. 16-17.

Ontario administrators frequently boasted that with an investment of 3,000,000 dollars nearly 25,000,000 dollars worth of railway development was generated. Wood concluded that "in Ontario we find it is the people and the municipalities who furnish the larger amount, while the Government assist. In Quebec, the very reverse is the order of the day - the Government furnish the bulk of the money and the municipalities and capitalists assist".⁷⁵ Wood's assessment of the situation requires some modification. While the Ontario treasurer recognized that a very significant amount of the Quebec administration's funding went to one

⁷⁵ Financial Statement of the Honourable S.C. Wood, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, January 29th, 1880, p. 17.

railroad, the Quebec, Montreal, Ottawa and Occidental Railway, he does not evaluate its impact on overall railway expenditure. In fact, to the year 1880, over three-quarters of the Quebec provincial administration's railway spending went toward the government-owned Q.M.O. & O. By removing this allocation the difference in the two province's contributions per railway mile to the year 1880, was not as drastic.

TABLE NO. 5-5
Railway expenditures, Quebec and Ontario,
excluding the Q.M.O. & O. Railway, 1874-1878

	MILES	DOLLARS
QUEBEC - 10 RAILWAYS	551	1 484 173
ONTARIO - 23 RAILWAYS	1 357	2 888 784

SOURCE: Financial Statement of the Honourable S.C. Wood, Treasurer of the Province, in the Legislative Assembly of Ontario, p. 16.

It was widely held that had the government not assumed control of the Q.M.O. & O. Railway, the financial position of the province would have been similar to that of Ontario. In 1885, a prominent Conservative noted that:

Si nous avions pas fait ce chemin de fer et si nous nous étions contentés d'administrer les affaires ordinaires de la province sans aider ces travaux, nous aurions maintenant une encaisse de plus de quatre millions. Nous serions dans une meilleure position que la province de l'Ontario.⁷⁶

Still, following 1880, it is clear that general railway subsidies provided by the Quebec provincial government to the end of the century, equalled the total outlay on the Q.M.O. &

⁷⁶ See Speech of Mr. Jean Blanchet in DALQ, 27 mars 1885, p. 480.

O. Railway. Moreover, following the sale of the railway, the province's other contributions to railways surpassed similar spending in Ontario from the 1870's to the end of the century (approximately 11,000,000 dollars vs. 6,500,000 dollars).

Some Quebec politicians believed that if municipalities in their province were in a similar financial position as those of Ontario and could afford to impose direct taxes on local rate payers, the disproportionate contribution to railways between the two levels of government could have been reduced. In the early 1880's, one politician remarked that:

Si nos villes et nos municipalités que traverse le réseau de chemins de fer subventionné par la province, avaient voulu le taxer directement pour aider à la construction des lignes, le gouvernement aurait pu limiter à une somme bien moindre que celle de dix millions de piastres, le montant des obligations qu'ils auraient encourues en faveur des voies ferrées. Mais elles ne l'ont pas voulu et elles ont constamment préféré donner instruction à leurs députés à cette Chambre, d'appuyer plutôt la politique nationale de l'encouragement libéral par le gouvernement...⁷⁷

In Quebec, treasurer J.G. Robertson looked at the comparison with Ontario from a somewhat different perspective. He argued that the Ontario provincial government had abstained from liberally subsidizing railways and, for example, had not contributed to the construction of the Canadian Pacific Railway. For its part, Robertson contended that Quebec not only subsidized purely local roads to the same extent as

⁷⁷ Speech of Mr. Louis-Georges Desjardins, in DALQ, 22 février, 1883, p. 596.

Ontario, but through its expenditure on the Q.M.O. & O. Railway, it contributed to the construction of a national railway.⁷⁸

The disproportionate contribution of provincial and municipal levels of government for railway spending between Quebec and Ontario continued through the final decades of the nineteenth century. In 1896, Quebec Premier E.J. Flynn pointed out that the provincial administration had spent approximately 24,500,000 dollars on railways while the government of Ontario's expenditure neared 6,750,000 dollars. This difference of slightly over 17,000,000 dollars was greatly offset by the contributions of Ontario municipalities to railway spending which amounted to over 10,000,000 dollars. In light of these contributions, Premier Flynn remarked that:

Le fait est que, de toutes les provinces, c'est celle de Québec qui a eu la politique la plus prononcée en matière de chemins de fer. Il semblerait que l'on est toujours jugé que c'était pour nous un devoir impérieux de développer nos ressources et d'améliorer nos moyens de communications...Ici, c'est le gouvernement que fait tout ou à peu près, tandis que dans l'Ontario, les municipalités portent la plus grande partie du fardeau. C'est ce qui explique le chiffre de notre dette en autant que les chemins de fer sont concernés.⁷⁹

Albert Faucher attributed the gap to the enterprising spirit

⁷⁸ Budget Speech by the Honourable J.G. Robertson, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, May 2nd, 1884, p. 12.

⁷⁹ See Speech of E.J. Flynn in Jean Boucher edit. DALQ, 29 décembre 1896, session of 1896-1897, p. 308.

of Ontario municipalities and the greater enthusiasm for railway development in the province. In an important critique of Faucher's hypothesis, historian Ronald Rudin suggests that the inability of Quebec municipalities to aid economic development had been confused with the unwillingness to do so. As a result of financial constraints, Rudin contends that Quebec municipalities were prevented from playing a major role in railway development. He concludes that in the absence of municipal financial support the provincial administration assumed the major responsibility.⁸⁰

TABLE NO. 5-6
Provincial and Municipal Aid to Railways on a decennial basis
Quebec and Ontario, 1875-1895

	QUEBEC TO 1885	ONTARIO	QUEBEC TO 1895	ONTARIO
PROVINCIAL AID	15,900,000 (80%)	4,150,000 (30%)	23,600,000 (84.5%)	6,300,000 (37%)
MUNICIPAL AID	4,100,000 (20%)	9,600,000 (70%)	4,300,000 (15.5%)	10,800,000 (63%)
TOTAL PROVINCIAL AND MUNICIPAL AID	20,000,000	13,750,000	27,900,000	17,100,000

SOURCE: For municipalities, see Ronald Rudin, "Boosting the French Canadian Town..." op. cit., and for provincial figures, Quebec: "Statement showing the yearly payments to Government and Subsidized Railways..." op. cit. Ontario: "Report of the Royal Commission on the Financial Position..." op. cit.

The above figures indeed reveal that Ontario municipalities had considerably outspent both their Quebec counterparts and

⁸⁰ See critique of Faucher in Ronald Rudin, "Boosting the French Canadian Town...", op. cit., pp. 6-7.

the Mowat administration. By the mid-1880's, however, the Ontario provincial government reversed the trend whereby the municipalities played the predominant financial role in railway spending. From 1885 to 1895, the Mowat administration spent twice as much in direct aid on railways as all its municipalities combined.

By the 1890's, Ontario treasurer H.R. Harcourt boasted that his province had pursued a vigorous, liberal and successful policy in the direction of aiding the construction of railways and towards the relief of municipal debts. Despite the numerous references to the enterprising spirit of Ontario with respect to assisting railway development, it is important to note that for its part, the province stayed within its financial means during the nineteenth century. While the Quebec government may have offset the lack of municipal spending on railways, in doing so, it created a substantial provincial debt. Therefore, it is uncertain that the provincial administration had substantial financial resources at its disposal relative to its municipalities. Rather, its willingness aside Quebec, extended itself beyond what it had originally intended in financing railway development.

Clearly, the time at which railway investments were made proved an important consideration in the success or failure of the initiative. Whereas the province of Quebec intervened on

behalf of financially trouble railways during a recession, the Ontario administration invested in a sound railway project at the height of a period of industrial growth. The Temiscamingue and Northern Ontario Railway proved a huge success relative to the Quebec, Montreal, Ottawa and Occidental Railway. Ontario treasurer Adam Crooks remarked that:

There are times when works of a permanent character can be advantageously undertaken, where the means for constructing these works are readily obtainable, where securities are convertible in the market, and...if these undertakings were entered upon a proper financial juncture there is every probability of their reaching completion.⁸¹

Unfortunately, Quebec administrators were either unable and/or unwilling to time their railway expenditures according to the economic conditions prevalent during a given period.

The success or failure of railway initiatives was contingent upon a number of factors. Distinguishing between ordinary business enterprises and railway ventures, one early twentieth century analyst remarked that:

The former are continued so long as they are profitable. If they do not succeed that are abandoned, or their character changed. On the other hand, when a railway has once been constructed, mother earth "grapples it to herself with hoops of steel" and it remains there for all

⁸¹ Financial Statement of the Honourable Adam Crooks, Treasurer of the Province, in the Legislative Assembly of Ontario, 16th January, 1877, p. 10.

time.⁸²

The "railway financial man" was obliged to follow the fluctuations of economic and commercial conditions and assess all possible influences on future undertakings. It was critical to get money "in the right place at the right time and in the right manner"⁸³

Railways were constantly making expenditures on capital account for extension and improvements enabling them to adjust to changing traffic conditions. In numerous cases such spending depleted the funds of a railway enterprise. Sound financial management was essential to the success or failure of a sound given railway. A tendency existed to extend the temporary financial accommodation of certain railway ventures beyond the limit of prudence. The possibility of establishing permanent financial arrangements appeared unlikely in the case of numerous railway initiatives which were not considered attractive to private enterprise.

The partnership between private enterprise and the state proved to be far more viable in Ontario than Quebec. In the latter province, most private railway ventures were almost wholly dependent on the state for financing. Consequently,

⁸²Frank Scott, "Some Features of Railway Finance", Journal of the Canadian Bankers Association, October 25, 1910, p. 20.

⁸³ Ibid., p. 21.

Quebec railways were often subject to the fiscal situation of the province and its ability to procure capital either through loans or the issuing of securities. In short, through the late nineteenth century, the government of Quebec's finances were intertwined with the progress of railway operations.

Both in Quebec and Ontario, railway development was considered an essential component toward the economic progress of the provinces. While government financing of railways in Ontario proved to be eminently manageable in terms of the associated expenditure, in the province of Quebec, the administration's intervention in this sector proved to be the major cause of what many regarded as a fiscal catastrophe.

CHAPTER 6
SURPLUSES AND DEFICITS

A. General Overview

In the last three chapters, we considered separately provincial revenues and expenditures in an effort to understand both the planning and prioritization of the budgets of Quebec and Ontario over the first three decades of the Federation. By examining on an annual basis the relationship between ordinary revenues and expenditures, a variety of conclusions may be generated regarding, among other things, the fluctuations in annual financial results. In light of the financial difficulties encountered in the pre-Confederation period, provincial treasurers were prepared following 1867, to employ whatever means were necessary to ensure that the annual budget resulted at the very least in a balance between revenues and expenditures. Both from a financial and political standpoint, it is clear that provincial treasurers attached considerable importance to producing an annual surplus.

Experts in the study of public finance generally agree that during the nineteenth century, all levels of government strived to keep revenues in line with expenditures and avoid annual deficits. As this rarely appeared to be possible, most governments financed their major projects by borrowing. In their Financial History of the United States, Paul Studenski and Herman E. Kroos suggest that late nineteenth century administrations lacked systems of budgetary control and

consequently revenue and expenditure programs were opportunistic rather than well planned. In the case of Quebec and Ontario, it is difficult to see how they could have implemented long term planning when for many years the fiscal impact of the Confederation arrangements were unclear.¹

A particular set of economic and financial conditions were usually required for a province to generate an annual surplus. Over the first thirty years of the Federation, some analysts considered such a result to be the exception rather than the rule. During the Confederation debates, A.T. Galt predicted that under the proposed Federation, the financial arrangements would permit the provinces of Quebec and Ontario to produce substantial annual surpluses. He therefore believed that the provinces would not make any pecuniary sacrifice under the new arrangement.² Only if a province were to engage in extravagant spending did Galt believe that annual expenditures would exceed annual revenues. It would appear that Galt's forecasts held true during the early years of the Federation, and especially for the province of Ontario. The situation changed dramatically in both provinces with the deteriorating economic conditions and was exacerbated in Quebec with the introduction of significant capital expenditures.

¹ Paul Studenski and Herman E. Kroos, Financial History of the United States, Fiscal, Monetary, Banking and Tariff, Toronto: McGraw-Hill Book Co., 1952, pp. 5-6.

² A.W. Boos, op. cit., p. 12.

When looking at total ordinary operations on a per capita basis over the first three decades of the Federation, Ontario had a better balance than Quebec in terms of what was collected versus what was spent per person. Moreover, as indicated in the table below, in the period 1867 to 1896, the per capita difference between total revenues and expenditures was particularly advantageous to Ontario.

TABLE NO. 6-1
Comparison of annual average per capita revenues and expenditures, Quebec and Ontario, 1867-1896

	QUEBEC			ONTARIO		
	revenue	expend.	diff.	revenue	expend.	diff.
			of			of
1867-76	\$1.55	\$1.48	+ 7¢	\$1.70	\$1.34	+ 36¢
1877-86	\$2.02	\$2.16	- 14¢	\$1.40	\$1.52	- 12¢
1887-96	\$2.60	\$2.68	- 8¢	\$1.75	\$1.77	- 2¢

SOURCE: Ontario: "Report of the Royal Commission on the Financial Position of the Province of Ontario", in Ontario Sessional Papers, Volume XXXIII, part 9, no. 50. Quebec: "Statement of the Receipts and Disbursements of the Province of Quebec inclusively, showing the surplus or deficit of each year...", in Quebec Sessional Papers, 55 Vict., 1892 and Budget Speech, A.W. Atwater, 9th December, 1896, op. cit.

As noted in chapter 4, an assessment of what are generally classified by the provinces as ordinary revenues and expenditures cannot be conducted without taking into account Quebec's recourse to extraordinary or special expenditures. As a consequence of such practices, in making comparisons between Ontario and Quebec finances there is significant potential for distortion. We have observed that on several occasions during the latter part of the nineteenth century, by

exclusively looking at ordinary fiscal operations it might appear that Quebec fared nearly as well as its neighbour.

During the late 1880's and early 1890's, there was an ongoing debate between Quebec Liberals and Conservatives over the potential impact of special expenditures on annual ordinary operations. In 1890, Mercier administration treasurer, Joseph Shehyn, remarked that:

By striking off on some more or less plausible pretext, certain receipts from one side and adding to the other certain special expenses, it is always easy to figure out any result that may be desired. The operation carries no weight in the eyes of those versed in such matters.³

Still, the Mercier government continued this practice which they claimed to have inherited from the debt financing of their Conservative predecessors. During the 1890's, the Conservatives, under L.O. Taillon, attempted to make some minor, but nonetheless important adjustments to the classification of certain expenditures, specifically in the treatment of Public Buildings. Provincial Conservative treasurer, John Smythe Hall, alleged that the Mercier administration had "...grossly used special expenditure to hide ordinary expenditure and try to show a surplus of ordinary receipts". He concluded that:

...if our ordinary revenue is insufficient and we borrow money, we must not only repay it, but also

³ Budget Speech of the Honourable Joseph Shehyn, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, 21st, February, 1890, p. 10.

the interest, and all this had to come out of our earning power and revenue.⁴

In spite of the potential created for distortion, the presentation of the annual surplus or deficit, as declared by the provincial treasurers, remains an important tool for analysis as it permits us to monitor the short term decision making process with respect to the financial situations of Quebec and Ontario.

TABLE NO. 6-2
Comparison of annual surpluses and deficits on
ordinary revenues and expenditures
in Quebec and Ontario, 1867-1896

	<u>ONTARIO</u>	<u>QUEBEC</u>
1867	+ 545,000	
1868	+ 960,000	+ 200,000
1869	+ 1,030,000	+ 335,000
1870	+ 840,000 (7 SURPLUSES)	+ 70,000 (9 SURPLUSES)
1871	+ 540,000 (3 DEFICITS)	+ 55,000 (1 DEFICIT)
1872	+ 845,000	+ 100,000
1873	+ 40,000 DIFFERENCE OF	+ 90,000
1874	- 440,000 \$2,350,000	+ 75,000
1875	- 500,000 IN FAVOUR OF	- 25,000
1876	- 560,000 ONTARIO	+ 50,000
TOTAL	+ 3,300,000	+ 950,000
	=====	=====

⁴ "Budget Speech" delivered by John Smythe Hall, Treasurer of the Province, in the Legislative Assembly of Quebec, May 20th, 1892, p. 5.

1877	-	630,000	-	75,000	
1878	-	630,000	-	560,000	
1879	-	670,000	-	515,000	
1880	+	50,000	(2 SURPLUSES)-	500,000	(10 DEFICITS)
1881	+	195,000	(8 DEFICITS) -	375,000	
1882	-	50,000	-	210,000	
1883	-	460,000	DIFFERENCE OF-	340,000	
1884	-	390,000	\$320,000	-	300,000
1885	-	35,000	IN FAVOUR OF	-	10,000
1886	-	30,000	ONTARIO	-	85,000

TOTAL	-	2,650,000	-	2,970,000	
		=====		=====	

1887	+	70,000	-	325,000	
1888	+	60,000	+	375,000	
1889	-	115,000	+	85,000	
1890	-	475,000	(4 SURPLUSES)-	340,000	(4 SURPLUSES)
1891	-	20,000	(6 DEFICITS) -	750,000	(6 DEFICITS)
1892	+	590,000	-	1,000,000	
1893	+	185,000	DIFFERENCE OF-	195,000	
1894	-	390,000	\$1,445,000	-	10,000
1895	-	170,000	IN FAVOUR OF	+	25,000
1896	-	210,000	ONTARIO	+	225,000

TOTAL	-	475,000	-	1,910,000	
		=====		=====	

SOURCE: Ontario: "Report of the Royal Commission on the Financial Position...", op. cit. and Quebec: "Statement of the ...surplus or deficit of each year...", op. cit. and Budget Speech, A.W. Atwater, 9th December, 1896, op. cit.

B. 1867-1876: The Character of the Surpluses

From a financial standpoint, the first ten years of the Federation were clearly successful both for Quebec and Ontario. In the case of Ontario, it would be appropriate to separate this period into two parts. From 1867 to 1873, Ontario had produced seven consecutive surpluses amounting to an excess of approximately 4,800,000 dollars in ordinary revenues over expenditures. In the following three fiscal

years, 1874, 1875 and 1876, with the emergence of the recession, the province accumulated 1,500,000 dollars in annual deficits. For its part, by 1873, Quebec had accumulated approximately 800,000 dollars in surplus earnings from annual operations which left it 4,000,000 dollars behind its neighbour. Since Quebec had not generated a significant annual deficit up to the year 1877, the province somewhat narrowed the gap with Ontario on ordinary operations.

A number of factors contributed to the sound, financial performance of the early Federation period: Until the mid-1870's, the provinces of Ontario and Quebec were fairly restrained in their fiscal activity. One of the main reasons for this behaviour, resulted from the undetermined responsibility for the 10,000,000 dollar debt excess beyond that covered by the federal authorities under the terms of Confederation. At the outset of the Federation, both Quebec and Ontario were paying interest on this sum from ordinary operations. As negotiations to resolve this matter continued through the early 1870's, the provincial treasurer deemed it wise to make sure that ordinary revenues stayed above expenditures.

From the very beginning of Confederation, the Toronto Globe urged the Ontario administration to employ its limited sources of income with both thrift and care and carry out government

and public undertakings with a view to putting funds aside in order to meet future contingencies.⁵ Similar sentiments were expressed in Quebec where the treasurer considered it necessary to exercise economy in order to preserve the province's stable financial position. Moreover, as one Quebec politician noted, the early post-Confederation provincial administrators considered it "fashionable" to boast that they had produced an annual excess of revenues over expenditures.

J.G. Robertson was especially proud of his record in the immediate post-Confederation years. In reflecting on his own performance during the first six years in which he was treasurer c.1869-1875, he remarked that:

...il me suffit de dire que j'ai conduit ce département de manière à avoir un surplus, petit il est vrai, mais je n'ai jamais eu de déficit... Il est vrai que l'on m'a accusé d'être trop économe, d'être même parcimonieux, quoiqu'il en soit... le public sait que les finances étaient dans un état satisfaisant...⁶

In the early years of the Federation, both provinces would appear to have conducted themselves in such a fashion so as to arrive at an excess of ordinary revenue over expenditure. It is important to note that in these early years, the performance of the provinces was supported by sound economic

⁵ Toronto Globe, January 30, 1871, p. 2.

⁶ Discours sur le budget de l'Honorable J.G. Robertson, DALQ, 24 juillet 1879, p. 200.

conditions. In these circumstances, large revenue from Crown lands, particularly in Ontario, combined with stable expenditure, helped the province to end the year with a surplus.

Looking at the degree to which the Ontario government outperformed its eastern neighbour from a broad financial standpoint at the beginning of the Federation, it is not surprising that the province was held up as a fiscal model by some analysts of the period. Quebec treasurers were disturbed at the growing frequency with which Ontario treasurers made financial comparisons to Quebec on ordinary operations. Treasurer J.G. Robertson suggested that this practice was highly unfair since Ontario benefited from greater revenues and was able to keep down expenditure in certain sectors where Quebec administrators found it difficult to reduce commitments.⁷ Contrasting the financial results of Ontario and Quebec on ordinary operations during the early years of the Federation, it would seem apparent that the latter province's advantage was the product of enhanced revenue more than on the basis of any significant difference in expenditure.

The decline of the annual cash surpluses generated by Ontario

⁷ Budget Speech by the Honourable J.G. Robertson, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, May 2nd, 1884, pp. 12-13.

in the early years of the Federation became a subject of great political importance. Beginning in the 1870's, the failure to produce continually positive results was stressed by Ontario's Conservative political opposition up until the end of the century. The conditions which gave rise to the surpluses of the early years were perhaps less associated with a certain type of financial management than the possession of a rather simple budgetary structure. Nonetheless, the Ontario Conservatives argued that it was only by practising strict economy that the province was able to accumulate a yearly surplus. The Conservatives frequently referred to an 1869 speech, in which Premier Sanfield Macdonald stated that:

I admit that I am stingy. I deal with public money as though I were dealing with my own personal funds. I am quite convinced - I took this ground during the Confederation debates - that an excessive or extravagant expenditure would, in the long run, lead the people to complain of the cost of local government, and the next step would be towards a change in our present system of government.⁸

Another source of political controversy arose over the way in which the accumulated surplus might be employed by government. During the early 1870's, the population of Ontario supported the distribution of a substantial portion of the proceeds some of which was already invested by the Conservatives under Sanfield Macdonald. The Liberal administration of Oliver Mowat went even further by investing considerable sums in

⁸ "Speech of Sanfield Macdonald" cited in Ontario Elections. 1898: Grit rule and the Hardy Government; the record and platform of the opposition, p. 16.

railway development and the reduction of the debt of nearly all municipalities. While amassing large annual surpluses in 1872 and 1873, the Liberals did not prepare themselves for a time when ordinary expenditure might surpass revenue. They saw no compelling reason for the government not to continue to invest its accumulated surplus. In the 1870's, the Mowat administration made surplus distribution one of its priorities, if not the major element of its political program. One Ontario treasurer, reflecting on the fiscal policy of the early 1870's, remarked that:

It was after most careful deliberation thought desirable that the surplus revenues of the Province would be used as far as possible in developing our resources...It was deliberately thought undesirable to hoard our surplus revenues, to lock them up, to keep them unproductive.⁹

As the province of Quebec did not benefit from annual surpluses as large as those of its neighbour in the early years of the Federation, it did not develop a policy of surplus distribution. Instead, the province's excess funds were deposited with the Bank of Montreal for what was considered a reasonable return. In the mid-1870's, the province of Quebec would see the disappearance of its accumulated annual surpluses as railway investments quickly depleted the rather modest accumulation. Henceforth, it was essential for the province to practice economy in order to

⁹ Financial Statement of the Honourable R. Harcourt, Treasurer of the Province of Ontario, delivered in the Legislative Assembly of Ontario, February 18th, 1897, p. 22.

avoid annual deficits. The Montreal Gazette maintained that it was essential to deal carefully with a surplus in order to avoid making long term commitments that might not be attainable. "While a large surplus in the public Treasury is undoubtedly a blessing, it is not an unmixed one" declared the Montreal Gazette which concluded that the best guarantee for Quebec was in the "careful and economical management of public affairs".¹⁰

Despite an impending recession, by the year 1874, there remained sufficient cause for both provinces to be optimistic about their fiscal future. Although Ontario was clearly in a better financial position than its neighbour, neither province was under any particular financial strain. The passage of the Tilley Act in 1873, whereby the federal government assumed nearly the entire pre-Confederation debt, provided more reason to adopt a positive outlook about the future. As the provinces were relieved of a substantial financial burden (including the elimination of approximately one quarter million dollars in annual interest), there was a feeling that they could potentially sustain if not enhance their fiscal performance. Quebec treasurer J.G. Robertson rejected pessimistic projections that there was "...sujet d'appréhender pour l'avenir quelques diminutions sérieuses dans notre revenu

¹⁰ Montreal Gazette, December 2, 1876, p. 2. For more information on the Quebec Surplus, see Chapter 7.

annuel".¹¹ Similarly in Ontario, the Toronto Globe expressed its optimism that a balance between revenue and expenditure could be preserved. The Globe remarked that:

With a certain and specified amount of \$1,333,000 annually from the Dominion, \$500,000 to \$600,000 from the Crown Lands Department, and from \$200,000 to \$300,000 from incidental sources against as we have seen, necessary government expenses of very little over a million, we may go on our way calmly and continue to give effect to the prudent but liberal policy of expenditure which has been so fruitful of good results in the past and so productive of prosperity.¹²

Unfortunately, however, by the mid-1870's, the optimism was not accompanied by a continuation of the large annual surpluses in Ontario. The dramatic reversal from surplus to deficit was characterized by a significant decrease in Crown land income combined with modest increases in all branches of developmental and social expenditure (i.e. education, public buildings and public works, public institutions maintenance, railways, etc.) which exceeded the figures estimated by the Toronto Globe. The political opposition referred to the appearance of annual deficits as a harbinger of things to come. With respect to the annual deficits, the Toronto Daily Mail cautioned Ontarians to "...beware one morning that our oil is exhausted and our lamp is out".¹³ The Mail argued

¹¹ See Discours sur le budget prononcé par l'Honorable J.G. Robertson dans l'Assemblée Législative, 29 novembre 1872, in Marcel Hamelin edit. DALQ, 1872, p. 110.

¹² Toronto Globe, December 6, 1875, p. 2.

¹³ Toronto Daily Mail, December 7, 1875.

that the Dominion subsidy was only sufficient to cover the cost of either basic government services or developmental and social expenditures. The remaining expenditures would have to be met with Crown land revenue combined with interest derived from the province's accumulated investments. The inevitable decline in the latter two sources of income, the former largely due to the recession and the latter from surplus distribution would give rise to continuing annual deficits.

For its part, the Quebec political opposition wondered whether the provincial surpluses which appeared from 1867 to 1875 were by any means attributable to the financial acumen of the Conservative administration and, especially, treasurer J.G. Robertson. The opposition suggested that:

Non certes, car ces excédents sont dus à des causes auxquelles l'honorable trésorier a été aussi étranger que l'homme de la lune. Notre principale source de revenu, les forêts de la province, a donné des résultats auxquels elle n'atteindra plus. D'un autre côté, nous n'avons pas un sou de dette publique. Pour avoir des excédents alors, il n'y avait pas besoin de trésorier. Le premier venu qui se serait seulement donné la peine de laisser faire les employés du département du trésor et des terres pouvait obtenir les excédents dont se vante aujourd'hui le trésorier.¹⁴

The province of Quebec did not experience a rapid transition from annual surplus to deficit in the same way as Ontario during the first ten years of Confederation. While more or less maintaining a balance between ordinary revenues and

¹⁴ See Speech of Mr. François Langelier in DALQ, 22 juin 1880, p. 524.

expenditures until the late 1870's, beginning in 1874, the province accumulated an important debt on its extraordinary operations associated primarily with railway expenditures.

In 1876, Quebec treasurer, L.H. Church, reported that there was much anxiety among Quebecers over the possible erosion of the annual surpluses. Indeed, a deficit of approximately 80,000 dollars appeared on the 1877 budget. But the treasurer was not disturbed by this result which he did not believe would have an immediate or far reaching impact on Quebec's financial situation. Church was nonetheless concerned that ordinary expenditures were growing too fast given the available revenues. He regarded the previous year as a test of the province's ability to withstand the largest total annual expenditure which had emerged to that point. The treasurer concluded that:

Dans un revenu comme le nôtre, dont une si grande portion est fixe, la marge sur laquelle la diligence ou l'énergie d'un trésorier peuvent s'exercer et affirmer un contrôle quelconque est nécessairement limitée et relativement petite...¹⁵

The first ten years of the Federation were, therefore, marked by the relatively constant presence of annual surpluses both in Ontario and Quebec. Economic conditions and the budgetary arrangements were initially favourable to the provinces. By the mid-1870's, however, signals began to emerge in both

¹⁵ Discours du budget de l'Honorable L.R. Church, 31 janvier 1878, in Marcel Hamelin edit. DALQ, session de 1877-1878, p. 102.

provinces which rendered unlikely the continuation of the positive earlier results. Total ordinary expenditures soon surpassed the income upon which the province's had relied. This obliged Ontario to deplete, to a significant extent, a major portion of its initial accumulations while Quebec was forced to employ extraordinary or special budgets to prevent the appearance of large annual deficits on ordinary operations arising from spending on railways. From the mid-1870's forward, achieving an annual surplus was an extremely complicated task.

C. 1877-1886: The Emergence of Deficits

From 1877 to 1886, the annual budgets of Ontario and Quebec were characterized by regularly recurring deficits which contributed to the erosion of the provinces previous gains. This period proved to be the most financially unstable since Confederation. The sense of optimism once expressed by provincial spokesmen gave way to a search for fiscal remedies to deal with a rise of expenditures which outpaced the total increase in revenues. Excluding its extraordinary expenditures, from 1877 to 1886, the province of Quebec generated ten consecutive annual deficits some attaining record heights of over 500,000 dollars. Over the same period, the province of Ontario produced eight annual deficits and two surpluses with the first three deficits (c. 1877-1880) exceeding the sum of 600,000 dollars. This made the Mowat

administration quite vulnerable to criticism from the political opposition which often referred back to the strong annual financial performances of Ontario Conservative Premier John Sanfield Macdonald.

TABLE NO. 6-3
Average of annual deficits, Quebec and Ontario, 1877-1886

	ONTARIO	QUEBEC
Average Annual		
Deficits	\$265,000	\$297,000
	8 deficits/2 surpluses	10 deficits

SOURCE: Ontario: "Report of the Royal Commission on the Financial Position...", op. cit. and Quebec: "Statement of the... Surpluses and Deficits of each year..." op. cit.

As the total of the annual deficits grew, a debate arose as to whether under the previously favourable circumstances, the provinces took the appropriate steps to prepare for the increase to expenditure. The Quebec political opposition charged the provincial Conservatives with having failed during the early years to give serious thought to the fiscal future. One opposition critic pointed out that:

Une époque de prospérité commerciale est toujours suivie d'une crise, puis d'une période de dépression plus ou moins longue...il [J.G. Robertson] aurait dû alors, comme le marin qui pendant le calme, se prépare à la tempête qui s'annonce, accumulé des ressources pour une époque moins prospère...au lieu d'accumuler des excédents et de les placer pour nous assurer un revenu capable de suppléer à celui de nos forêts, comme le faisait les trésoriers d'Ontario. Il a, d'une année à l'autre, augmenté nos dépenses courantes, au point que lorsqu'il a laissé le Trésor en 1875, elle était à la veille d'absorber tous nos revenus et de laisser un déficit.¹⁶

¹⁶ Speech of Mr. François Langelier in DALQ, 22 juin 1880,

During the 1878 election campaign, Liberal leader H.G. Joly attacked the Conservatives for having eliminated the accumulated surplus and placing the province's finances in grave jeopardy through extravagance in expenditure.

During a brief stint in power, in the late 1870's, the Quebec Liberals led by H.G. Joly, were unable to avert large annual deficits and the consequent increase to annual interest payments arising from continued borrowing. With the return to power of the Conservatives and the re-emergence of J.G. Robertson as treasurer of the province, the opposition Liberals once again revitalized their attacks upon the financial management of the government and Robertson seemed to be the primary target. In reviving their criticism of Robertson, the opposition remarked that:

...il s'est souvent vanté que pendant les sept années qu'il a été trésorier, il a toujours eu des excédents, pendant que ses successeurs ont eu des déficits. Il veut laisser croire que ces excédents, d'une part, et ces déficits de l'autre, sont dus les premiers, a son grand génie financier, les seconds à l'incapacité de ceux qui lui ont succédé.¹⁷

By the early 1880's, Robertson admitted that he would be unable to avoid ordinary annual deficits without making major alterations to the relationship between ordinary revenues and expenditures. In 1881, he recommended that the province

pp. 524-525.

¹⁷ Ibid.

return to a practice of strict economy by reducing expenditures and introducing new taxes. The treasurer proposed to act with moderation so that the population could adapt to the necessary changes. Within a few years, however, Robertson believed that more drastic action would be required to remedy the short and long term problems in the province's financial condition.

In his 1884 budget statement, Robertson confessed to not having discovered the most appropriate means of equalizing ordinary revenues and expenditures. He recognized that despite having generated some additional income over the previous few years, ordinary revenues were insufficient to meet ordinary expenditures. The treasurer maintained that in spite of attempts to disguise annual deficits, there was no doubt that Quebec had continually fallen behind on its ordinary budget. He concluded that:

There have been annual deficits, larger or smaller, as the figures were manipulated for several years, but beyond question, deficits from \$300,000 to \$500,000 a year have occurred.¹⁸

Robertson believed that if the annual financial situation did not improve, substantial damage would be inflicted on the province's reputation. He added that Quebec had the choice of either very considerably increasing revenues and/or materially

¹⁸ Budget Speech by the Honourable J.G. Robertson, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, May 2nd, 1884, p. 4.

reducing expenditures. Robertson had little confidence in the possibility generating significantly greater income. As a result, he clearly expressed a preference for the spending cuts seeing this as a "more excellent way" of redressing the situation. The treasurer concluded that:

No one with even a pretence of wishing for the prosperity of our province would venture to recommend an expenditure above our receipts or the continuance of a system entailing large annual deficits as heretofore.¹⁹

Robertson implemented cuts to all branches of expenditures in 1885 and 1886 which substantially reduced the annual deficit in those two fiscal years. In his 1886 budget speech while Robertson reported that a small surplus had been achieved, the Quebec Public Accounts revealed that there was deficit of less than 100,000 dollars. The local press accused the treasurer of creating this surplus by improperly classifying certain payments associated with loans to capital account that Robertson believed did not belong in ordinary budget.²⁰

In his 1884 budget speech, Quebec treasurer J.G. Robertson also noted that the fiscal behaviour of the province of Ontario had been held up from time to time as a model for imitation. In the case of Ontario, according to Robertson, many observers believed that "...its large surplus(es) from

¹⁹ Ibid, p. 5.

²⁰ Budget Speech of the Honourable J.G. Robertson, delivered in the Legislative Assembly of Quebec, May 7th, 1886, pp. 4-5.

year to year has been pointed to as showing good management as compared with our reckless management".²¹ Robertson pointed out that the province of Ontario had for some years been plagued by annual deficits and was obliged to fall back on its large accumulated surplus to preserve a sound financial position. For Robertson, this was proof that Quebec "...was not alone in not reducing the expenditure to the receipts...".²²

In the mid-1880's, certain Quebec politicians claimed that as the Mowat administration had begun to deplete its accumulated surpluses it could no longer be considered a fiscal model for its eastern neighbour. Annual operations in that province, it was noted, were characterized by deficits as high as 500,000 dollars. As one Quebec politician observed: "les découverts absorbent rapidement la petite balance du surplus accumulé par le gouvernement conservateur de John Sanfield Macdonald".²³

As the annual deficits of the Ontario administration failed to dissipate, in the latter half of the 1880's, the government was subject to attacks on its financial record. The

²¹ Budget Speech by the Honourable J.G. Robertson, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, May 2nd, 1884, p.11.

²² Ibid, p. 13.

²³ See Speech of Mr. Louis-Georges Desjardins in DALQ, 11 mai, 1886, p. 1106.

opposition made a concerted effort to demonstrate the contradiction between the constantly rising surplus of assets over liabilities in the face of a long series of annual deficits. Despite the administration's frequent denial of this situation, the opposition warned the population that the government would have to obtain significantly enhanced revenue through the imposition of direct taxes.²⁴

Ontario's political opposition maintained that the financial comparisons with Quebec made by the province's treasurer were seriously flawed. By partially invalidating such a comparison, it was easier to focus more directly on the perceived financial mismanagement of the Mowat government. Opposition spokesman W.R. Meredith insisted that there was "...a too apt habit of the Grit party, of comparing Quebec and Ontario finances to the credit of the latter..." Indeed, he added that such comparisons might not be as flattering to Ontario as the Mowat administration would have liked the population to believe. Meredith concluded that:

If it were not for the expenditure of Quebec on a railway of an interprovincial and national character, the finances of that province would not be embarrassed. Beyond that one great extravagance, which is perhaps no extravagance at all, Quebec is not open to the charge of wastefulness...²⁵

²⁴ Reply of Adam Creighton to Budget Statement of A.M. Ross, Treasurer of the Province of Ontario in the Toronto Daily Mail, February 14, 1885, p. 8.

²⁵ Toronto Daily Mail, February 29, 1884, p. 4.

On certain occasions, Ontario treasurers themselves recognized that the comparison with Quebec was somewhat problematic and that a particular set of circumstances prevailed in the latter province which placed it at a disadvantage relative to its neighbour. For example, by the early 1880's, Ontario treasurer S.C. Wood who generally enjoyed contrasting his province's budget with that of Quebec, softened his stand on Quebec's alleged financial mismanagement. In 1883, at a time when Quebec and Ontario began to co-operate in pursuing certain fiscal claims from the federal authorities, Wood concluded that while financial comparisons were essential to better understand a province's situation, perhaps Quebec was not the ideal basis for measurement given the special circumstances which existed in that province.²⁶ Nonetheless, in coming years, Ontario continued to invoke the comparison on ordinary operations between the two provinces.

The Ontario Liberal government was often obliged to deal with fiscal comparisons made between the financial affairs of the Mowat administration in the mid-1880's with that of Sanfield Macdonald in the early years of the Federation. In his 1884 budget speech, treasurer A.M. Ross rejected the comparisons made by the Conservative political opposition. According to the Ontario Liberals, the opposition's use of gross

²⁶ Financial Statement of the Honourable S.C. Wood, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, January 10th, 1883, p. 21.

expenditure under Mowat's government overlooked certain important charges. Treasurer Ross believed that the increases in key expenditures between the early 1870's and the subsequent decade were necessary from time to time as the population increased and the development of the province proceeded quickly.²⁷ The opposition also charged that the Mowat administration received greater annual revenue than its predecessors. Ross pointed out, however, that under the government of Sanfield Macdonald, average annual income totalled approximately 2,475,000 dollars, c. 1868-1871, while in the late 1870's through the early 1880's, the yearly average was slightly over 2,500,000 dollars, in effect, the excess was relatively insignificant. For A.M. Ross, it was clear that while his government had done so much more for the people than the former administration, they were not in receipt of any larger revenue.²⁸ This proved to be the major justification for the annual deficits which plagued the Mowat administration during the 1880's.

D. 1887-1896: Rediscovering a Balance

The period 1887-1896 was highlighted by important efforts on the part of provincial treasurers to increase ordinary

²⁷ Ontario Elections 1884: the platform of the [Conservative] Opposition, pp. 18-19.

²⁸ Budget Speech of the Honourable A.M. Ross, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, February 21st, 1884, p. 35.

revenues so that they might catch up with the growth in ordinary expenditures. Relative to the constant annual deficits of the previous years, this period was marked by each province generating six annual deficits against four surpluses. Great fluctuations from year to year characterized the financial operations of the two provinces from 1887 to 1896 and broader economic circumstances clearly did not have a similar impact on the provinces' finances. A poor financial outcome in one province was not imitated in another province. For example, in the years 1891 and 1892, whereas Quebec showed annual deficits of 750,000 and 1,000,000 dollars respectively, in the latter year, the province of Ontario showed a surplus of nearly 600,000 dollars. The latter result, in contrast to the previous fifteen fiscal years, was more in line with the annual surpluses that Ontario was able to generate during the early years of the Federation. Ontario's ability to overcome the deficits of the 1887-1896 period was primarily a function of two factors: (1) the revival of Crown land income and (2) the introduction of succession duties. From the late 1880's, expenditure increased annually until the mid-1890's, at which time the provincial treasurer made minor cuts to nearly all items.

On ordinary operations, from 1891 to 1893, Ontario significantly outperformed its eastern neighbour. But from a financial standpoint, the mid-1890's were quite volatile and

from 1894 to 1896, Quebec's overall results were superior to those of Ontario on its ordinary budget. During those three years, Ontario had three consecutive deficits ranging from 170,000 to 390,000 dollars, against Quebec's modest surpluses. This dramatic reversal from previous years was largely the result of the introduction by Quebec treasurers of a series of direct taxes that prevented continued deterioration in the financial situation.

In his 1884 budget speech, Ontario treasure A.M. Ross admitted that the "ups and downs" of the surplus depended on the revenue from Crown lands. Through much of the 1890's, the Ontario administration seemed to make efforts to adjust its total expenditures based on the volatile swings in Crown land income. Still, the province was not always successful in pursuing this objective. While in 1890, one witnesses a rise in expenditures coinciding with a decline in receipts from Crown lands, we see the inverse phenomenon in 1892. In that year, revenues jump by approximately 1,150,000 dollars from Crown lands while overall expenditures decrease. From 1892 to 1896, although the Mowat government was steadily reducing expenditures, a dramatic drop in the income from Crown lands in 1894 once again resulted in a substantial deficit on ordinary operations.

TABLE NO. 6-4
Income from Crown lands, and
overall revenues and expenditures (including Crown lands)
for the Province of Ontario
Six select years (rounded figures)

	CROWN LANDS	REVENUE	EXPENDITURE
1886	814,800	3,148,600	3,181,400
1887	1,110,000	3,527,600	3,454,400
1890	1,103,400	3,423,100	3,896,300
1892	2,253,000	4,662,900	4,068,200
1894	1,105,700	3,453,000	3,840,300
1896	925,200	3,490,670	3,700,000

SOURCE: "Royal Commission on the Financial Position of Ontario...", op. cit.

During the 1890's, the Ontario political opposition enhanced its attack on the government's alleged creation of annual surpluses through the sale of Crown lands. A Conservative spokesman remarked that "...in 1892, the expenditures would have exceeded the receipts by half a million dollars, had the government not again raided the timber resources for the Province".²⁹

The opposition contended that the Mowat administration faced the impossible task of reducing the very expenditure which it raised during the early 1890's if it wished to achieve equilibrium in its financial operations. They charged the Liberals with pursuing a "helpless" financial policy of drift which would inevitably result in direct taxation in one form or another. The Ontario Conservative opposition argued

²⁹ Ontario Elections 1894: the platform of the Opposition, pp. 18-19.

against direct taxation and for "...a general reorganization of the public service to bring the expenditure within income".³⁰

Ontario treasurer H.R. Harcourt rejected the opposition's criticism and noted that since 1891 expenditures had decreased over several years.³¹ For example, during the mid-1890's, additional cuts were applied to spending on railways. The opposition correctly held that from 1894 to 1896 annual deficits resulted in reductions to the province's bank deposits which dropped from 1,000,000 dollars to approximately 225,000 dollars. In his reaction to the diminution of the bank balance, Harcourt remarked that the monies were drawn to pay for such capital expenditures (although they were posted in the ordinary budget) as Public buildings and railways. In December 1897, in a statement similar to those frequently made by his Quebec counterparts, treasurer Harcourt concluded that:

They [the opposition] can only manufacture deficits against our administration by ingeniously confusing expenditure on ordinary account for current services of the country with expenditures on capital account such as for new buildings or additions to buildings which now exist. These latter expenditures of course improve the position of the Province, and form additions to its

³⁰ Ontario Elections: 1898 Grit Rule and the Hardy Government: the Record and platform of the Opposition, p. 16.

³¹ Financial Statement of the Honourable R. Harcourt, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, February 18th, 1897, p. 18.

assets.³²

Harcourt noted that unlike Ontario, the province of Quebec had not practiced sound finance during the economic recession and, therefore, had to make annual provision for interest charges that consumed one-third of all its revenues. For Harcourt, the province of Ontario "stood alone" with a policy of true economy. The treasurer concluded that: "...the most careful economy and it alone, can successfully bridge over the gap which, in most countries, too often exists between receipts and expenditures..."³³

While in the late 1890's, expenditure rose in Quebec, it was accompanied by modest increases in revenue from Crown lands. This along with the revenue from commercial corporate taxes which appeared in 1887, helped the province balance its budget in the late 1880's. But, in the face of the rapidly increasing annual debt service, further measures were necessary in order to prevent recurring annual deficits. During the 1890's, massive increases in license revenues combined with new revenues from taxes (c. 1892-1896), were accompanied by reductions in spending in several key areas, particularly on basic government services.

Disputes between Quebec Liberals and Conservatives over the

³² Ibid, p. 33.

³³ Ibid, p. 48.

province's annual financial performances intensified from 1887 to 1896. Following the 1886 electoral victory of Honoré Mercier, the new provincial treasurer, Joseph Shehyn, accused his predecessor of covering up the increase to the overall debt. According to Shehyn, the Conservative treasurer J.G. Robertson, "...had the courage to make us believe that we were piling up surpluses when he knew perfectly well that we were yearly adding large sums to the amount of our liabilities".³⁴ Moreover, unlike their predecessors, the Liberal-Nationalist administration insisted that they managed to increase expenditures in several areas while averting annual deficits. In light of this, Shehyn concluded that:

...during the last six years of their tenure of office, our adversaries admittedly spent less, but unfortunately, while spending smaller sums for certain purposes, they managed to accumulate, between their ordinary receipts and expenses, a deficit... In the face of such a result, I ask every impartial mind, which is the better of the two administrations? Is it the one which spends less, but whose ordinary services there is a total shortage of 1,268,000.19 or the one which spends more, but which under the same head can show a surplus of \$112,332.43?³⁵

Not surprisingly, the Conservatives, led by J.G. Robertson, attacked the Mercier administration for misleading the population through the abuse of special budgets and

³⁴ Budget Speech of the Honourable Joseph Shehyn, Treasurer of the Province, in the Legislative Assembly of Quebec, April 12, 1887, pp. 18-19.

³⁵ Budget Speech delivered by Honourable Joseph Shehyn, Treasurer of the Province, in the Legislative Assembly of Quebec, on the 9th December, 1890, p. 13.

extravagance in spending which was highlighted by increases to all branches of expenditure. For the year 1888, the Conservatives pointed out that the arrears of over 550,000 dollars, from the commercial corporate tax first introduced by J.G. Robertson, should not all have been placed amongst ordinary receipts.³⁶ In effect, it was misleading for the opposition to take credit for the increase in overall income for that year.

The provincial Conservatives charged that under the Mercier administration, numerous items of expenditure were increased while costs associated with Public buildings were being classified under special accounts. Treasurer Joseph Shehyn admitted that expenditures had been returned to their previously higher level, but saw little choice on account of the increase to the interest service and need to improve public works and other services required by a growing population.

During the 1890 election campaign, the opposition Conservatives criticized the Mercier administration for spending to an extent where existing revenue was clearly becoming increasingly insufficient. Premier Mercier reminded his opponents that during the near twenty years of

³⁶ Budget Speech of the Honourable John Smythe Hall, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, 20th May, 1892, p. 29.

Conservative government annual deficits were omnipresent. He argued that since the Liberal Nationalists had assumed power, they had converted annual deficits into surpluses and had thereby greatly improved the province's financial position. Despite the Mercier administration's initial ability to reduce annual ordinary deficits, Shehyn noted that:

...it is well to remember that it is impossible, with the proceeds alone of our ordinary resources, to meet all the requirements and satisfy all the wants entailed by...a vigorous policy which will hasten the development of our resources...let us not be blamed afterwards if the expenditure has not been kept down to as low a figure as might be desired.³⁷

Following Mercier's election victory, the annual financial situation changed dramatically. Within a year, the government was plagued by a huge deficit on ordinary operations. The Liberals claimed that their problems resulted from the decrease in income from Crown lands and licenses. The overestimate of revenues from these sources contributed to the record deficits which appeared in 1891 and 1892 (750,000 and 1,000,000 dollars respectively). The provincial Liberals contended that if they were able to have forecasted the decline, they would have proceeded to control expenditures. This ultimately proved to be a factor in the political downfall of the Liberal-Nationalists in the early 1890's.

³⁷ Budget Speech delivered by Honourable Joseph Shehyn, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, 9th December, 1890, p. 11.

In 1892, Quebecers went to the polls and defeated the Mercier government. With their election victory, the provincial Conservatives were once again given the opportunity to pursue the program of spending cuts initiated by treasurer J.G. Robertson in the previous decade. His Conservative successor, treasurer John Smythe Hall, was determined to employ all means at the government's disposal to balance the budget on ordinary operations. Hall believed that in order to restore the province's financial position, it was extremely important for Quebec to demonstrate to overseas financial markets that steps were being taken to resolve the debt problem. According to the treasurer, the previous administration created a serious financial problem for Quebec by substantially increasing expenditures against insufficient revenues. In May 1892, he concluded that: "Our annual revenue does not exceed an average of \$3,500,000 and we have an enormous annual deficiency and excess of expenditure over revenue to face".³⁸ With this in mind, Hall proposed two objectives he deemed necessary to remedy the province's financial plight: (1) imposing taxation that would meet the deficiency in revenues, restore

³⁸ Budget Speech by the Honourable John Smythe Hall, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, on 20th May, 1892, p. 29.

equilibrium in the two provinces' finances and inspire confidence in the public and; (2) a reduction in the general expenditures to make it approach the revenue without impairing the efficiency of the public service or impeding the proper progress of the province.³⁹

Beginning in 1892, Hall implemented a series of new taxes designed to increase the ordinary revenue by 1,000,000 dollars. While he recognized that the introduction of different modes of direct taxation would be unpopular, he considered it critical on a temporary basis in order for the province to bring about equilibrium between revenues and expenditures. For Hall, there was no question that the province's credit could only be restored by demonstrating that the Quebec administration had the resources and means to balance its annual budget.⁴⁰

At the same time, Hall felt it was necessary to show the government's determination to "practice economy" by retrenching various services. While Hall recognized that this was a difficult task, he managed to trim over 400,000 dollars from the 1892 budget. As noted in Chapter 4, besides the cuts to basic government services, major reductions were applied to

³⁹ Budget Speech delivered by the Honourable John Smythe Hall, Treasurer of the Province, in the Legislative Assembly of Quebec, 31st January, 1893, pp. 3-4.

⁴⁰ Ibid and Montreal Gazette, December 15, 1897, p. 4.

agriculture and colonization, ordinary public works, lunatic asylums, charities and miscellaneous services. But perhaps the most important achievement of John Smythe Hall was the elimination of special expenditure on Public buildings which under the Mercier administration had accounted for an annual average of 650,000 dollars. Hall reduced the contribution to Public Buildings to approximately 375,000 dollars and, while still referring to it as extraordinary spending, classified the allocation within the ordinary budget. The cumulative effect of the changes made by Hall was to dramatically reverse the record 1892 deficit of 1,000,000 dollars under the Mercier administration by reducing it to a 200,000 dollar deficit in the following year. Largely as a consequence of the changes initiated by Hall by the year 1896, his successor, A.W. Atwater, was able to generate an annual surplus of approximately 225,000 dollars.

Opponents to the government vehemently criticized the approach adopted by the Conservatives with regard to the management of Quebec finances. The opposition charged their Conservative adversaries with having unnecessarily imposed onerous taxes on the public to quickly reestablish equilibrium. The Liberals were not convinced that these measures were necessary in order to eliminate the deficits. Instead, they argued that cuts to expenditure would have sufficed. This represented a departure for the Liberals from the view on spending adopted by the

Mercier administration. Contrary to their own practice when in opposition during the early 1890's, the Liberals claimed that : "Etant si habiles, ils n'auraient dû éprouver aucune difficulté à réduire ces modiques sommes sur les services contrôlables, sans ajouter de nouvelles taxes".⁴¹

While the Taillon administration did benefit from increases in Crown land revenue from 1893 to 1896, there was no doubt that the introduction of a series of new taxes over that period, played a pivotal role in reducing annual deficits. With the withdrawal of these taxes in 1896, just prior to provincial elections, the possibility of renewed annual deficits loomed large. Ironically, in 1897, the last fiscal year of the provincial Conservative administration, an annual deficit of approximately 980,000 dollars appeared virtually matching the record deficit achieved in the final year of the Mercier administration. Moreover, this deficit appeared to be an even more drastic reversal in light of the surplus of the previous year. The major cause for this financial catastrophe resulted from the pre-election increases in all branches of expenditure (particularly Public buildings, basic government services and agriculture) combined with a decrease in Crown land revenues and the reduction in the balances from certain recently eliminated direct taxes.

⁴¹ Speech of Joseph Shehyn in Jocelyn St-Pierre edit. DALQ, 2 janvier 1895, session de 1894-1895, p. 252.

TABLE NO. 6-5
Comparison of expenditures and revenues for Quebec,
1896 and 1897

	EXPENDITURES	-	REVENUES	=	(approximate)
1896	4,099,000	-	4,237,000	=	+ 228,000
1897	4,700,000	-	3,875,000	=	- 825,000
SOURCE: Quebec: Budget Speech, Honourable Félix-Gabriel Marchand, December 14, 1897.					

The newly elected Liberal administration of Félix Gabriel Marchand, was quick to cite the failure of the Conservative administration to reach its objective of equilibrium in the annual budget. The Liberals observed that:

...a statement of the total receipts and expenditures for the year 1892, 1893...gave a deficit of only \$24,828, and the Treasurer at that time, led the House to hope for constant surpluses in subsequent years. But, as would be seen, the results had far from justified his expectations.⁴²

E. The Success of Short-Term Financial Management

In this chapter, we have attempted to assess the year-to-year fiscal practices of the two provincial administrations and examine the short-term remedies employed by governments in dealing with their respective fiscal circumstances. From 1867 to the 1890's, despite several annual deficits, the government of Ontario was able to prevent liabilities from exceeding the province's assets and thereby averted major modifications in the ongoing management of the budget. Furthermore, with the

⁴² Budget Speech delivered by the Honourable Félix-Gabriel Marchand, Treasurer and Premier of the Province, delivered in the Legislative Assembly of Quebec, December 14, 1897.

predominance of the Mowat Liberal administration from 1872 to 1896, opposition challenges to the government's handling of finances while carrying some weight, did not result in a change of course. On the other hand in Quebec, notwithstanding the dominance of the provincial Conservatives frequent short term fiscal adjustments were made to the annual budget. The creation of separate budgets for ordinary and extraordinary expenditures was created within the first decade of the Federation. Ontario resisted employing extraordinary budgets until the early twentieth century. For Quebec Conservatives and Liberals, the desire to increase revenues and to either increase or reduce expenditures represented a regularly recurring budgetary challenge. With the constant presence of the overall debt when a series of annual deficits appeared, the provincial government proposed reductions in expenditures as well as the difficult objective of raising additional income. In 1879, Quebec treasurer J.G. Robertson reflected on the difficulty of managing the provincial budget during the recession. He concluded that:

Tout homme peut se tromper et des erreurs peuvent arriver à plus fortes raisons pendant une époque où d'année en année, la province subit des changements, qui ne peuvent être prévus. Tandis que d'un côté le revenu était affecté par la continuation de la dépression commerciale, d'une autre côté cet état des choses a rendu nécessaire en maints cas une augmentation dans le chiffre des dépenses.⁴³

⁴³ See Discours sur le budget de l'Honorable J.G. Robertson in DALQ, 24 juillet 1879, p. 198.

Similarities between Ontario and Quebec in the pattern or timing of yearly surpluses and deficits tended to follow, with certain important exceptions, the prevailing economic cycle of a given period. In addition to this, both provinces produced the exact same number of surpluses and deficits, seventeen and thirteen respectively. Nonetheless, the size of the surpluses generated by Ontario in the early Federation years permitted that province to surge ahead of Quebec from a financial standpoint.

In the subsequent decades in both provinces, the ordinary surpluses gave way to deficits which might in certain periods have been described as chronic. With the deepening of the recession around the mid-1870's, the appearance of significant annual deficits characterized the budgets of Ontario and Quebec. For example, in Ontario, from 1874 to 1879, six consecutive annual deficits ranging from 440,000 dollars to 670,000 dollars constituted a clear reversal of the earlier financial successes of the province. Save a limited number of exceptional years, Ontario was plagued by annual ordinary deficits, some less important than others, through the remainder of the century. From 1877 to 1886, with a reduction in total ordinary revenues in the previous years and an important rise in overall ordinary expenditures, the province had a total deficit of over 2,500,000 dollars (approximately 265,000 dollars per annum). Over the period 1887 to 1896, the

situation improved as total ordinary revenues nearly matched ordinary expenditures. The number of deficits and surpluses and the magnitude of each virtually offset one another.

In his book, Progress without Planning, Ian M. Drummond suggests that the "simplicity" of the 1867 arrangements, whereby revenues were large in comparison with expected outlays, continued with remarkably little basic change until the 1890's. Thereafter, he contends, change was rapid with respect to both revenue and expenditure. By looking at Ontario's overall revenue and expenditure to the year 1900, Drummond suggests that the province was managing its finances in an extremely conservative way. But he correctly observes that the situation was not always as sound as it looked as revenue tended to rise less than outlay and the two trend lines intersected about 1893.⁴⁴

At the beginning of the Federation, Drummond states that the impression is given of a government that it gradually growing into its fiscal resources. He believes that Ontario reacted naturally to the emergence of a surplus. He concludes that:

As revenues were rising unexpectedly quickly, it was natural for government to respond to the emerging surpluses by spending more money in many directions without fully counting the cost for future years. Once generous spending programs had been established, it was possible to continue them

⁴⁴ Drummond. "Progress without Planning..." op. cit., p. 347.

even after deficits had begun...⁴⁵

In the case of Quebec, the reversal of surplus to deficit occurred in the late 1870's. Until that time, the province, also pursuing a conservative fiscal direction, maintained relative equilibrium between ordinary revenues and expenditures. From 1878 to 1884, seven straight annual deficits appeared ranging from a total of 300,000 dollars to 560,000 dollars.

A variety of reasons contributed to the deficits not the least important of which was the dramatic rise in ordinary annual interest charges. From 1877 to 1886, Quebec declared nearly 3,000,000 dollars in ordinary accumulated annual deficits. This of course does not take into consideration the additional expenditures which emerged from railway financing.

Robertson contended that since revenues were not likely to increase, only through the curtailment of expenditure could deficits be reduced. Such an approach clearly entailed a certain degree of political risk. By the mid-1880's, the Liberals under Honoré Mercier returned expenditures to the levels they had attained prior to cutbacks by the Conservatives. The increased spending was not greeted unfavourably by the Quebec electorate in spite of their debt situation. Nonetheless, beginning in the 1890's, the

⁴⁵ Ibid., p. 343.

provincial Conservatives returned to the practice of fiscal restraint one which Quebec governments would adhere to for a number of decades thereafter. By the close of the century, the provincial Liberals realized that only a long term strategy of debt reduction highlighted by a halt to borrowing could put Quebec's finances back in order at some point in the future.

Confronted with annual deficits through much of the recession, there were times when Quebec treasurers stressed that the Mowat government was also unable to prevent expenditures from exceeding revenues. Simply contrasting the ordinary annual deficits of the two provinces, would limit a broader analysis of Quebec's financial difficulties. As Quebec transferred two of its major areas of expenditure (e.g. railways and public buildings) to special or extraordinary budgets, it placed a significant amount of debt outside its ordinary operations. Quebec's inability to resolve its ongoing financial problems with existing revenues obliged the province to carry its debt over a period of years. The constant rise in debt was a source of concern for those who believed it essential to balance the budget. One opposition spokesman noted that:

Avec une dette semblable, notre avenir est perdu,
car si nous continuons à accumuler des déficits
annuels lorsque, avec nos recettes actuelles, il
nous est impossible de faire face à nos

obligations...⁴⁶

There appeared to be no coherent long-term strategy to deal with the deteriorating financial situation. As one critic concluded: "on vit au jour le jour: on vit d'expédients et l'on croit par là réussir à remettre en bon état les finances de la province".⁴⁷ In the next chapter, we will examine the evolution of Quebec's debt and the process by which it hoped to address its broader financial concerns.

⁴⁶ See Speech of Mr. Joseph Shehyn in DALQ, 6 mai 1884, p. 940.

⁴⁷ See Speech of Mr. Mercier in DALQ, 27 mars 1885, p. 478.

CHAPTER 7
ASSETS AND LIABILITIES

a. General Overview

Most accounts of the economic and political history of Quebec and Ontario pay scant attention to the statements submitted by provincial treasurers with regard to assets and liabilities. While these statements have been considered incomplete by certain analysts of the period, they nonetheless serve as a useful mechanism in offering an overall assessment of the respective financial situations of the two provinces. In addition, it is important to note that these financial statements were employed by treasurers in an effort to establish a province's credit in the event that it wished to contract a loan. During the late nineteenth century, this ultimately proved to be essential for the province of Quebec as it was frequently required to submit statements on its financial position in order to obtain funds from the larger banking institutions.

At the outset of the Federation, the provincial treasurers recognized the serious problems associated with accurately establishing the financial position of the two provinces given the unresolved dispute between Quebec, Ontario and the Dominion regarding the disposition of pre-Confederation assets and the balance of the pre-Confederation debt. With the passage of the Tilley Act in 1873, the financial situation of the provinces was easier to estimate. Moreover, Quebec and Ontario were in a much better position to access capital

markets if they deemed it necessary.

During the early 1870's, Ontario's financial statements revealed that the province had previously converted a share of its surplus funds into what were considered liquid assets consisting primarily of Dominion bonds. The treasurer of Ontario estimated the province's total assets at approximately 7,800,000 dollars, which included the special funds which were brought forward from the pre-Confederation period that were created by Upper Canada prior to the enactment of Confederation and the approximately 4,000,000 dollars in investments which were the result of the accumulated annual surpluses generated between 1867 and 1873. Amongst the liabilities identified in the province's 1874 statement were the balances to be paid for railways and municipalities arising out of the surplus distribution. The total amount of the funds destined for these items was approximately 2,500,000 dollars. Therefore in 1874, the treasurer of Ontario could refer to a surplus of more than 5,000,000 dollars of assets over liabilities (see appendix I). From 1874 to 1896, the Ontario surplus of assets over liabilities remained virtually unchanged at approximately 5,000,000 dollars. Nonetheless, we shall observe that over this period, there were important adjustments to the base of the assets presented by the province of Ontario (see appendices I-VI).

In Quebec, the first statement on assets and liabilities appeared in the early 1880's and showed a significant accumulated debt somewhere in the area of 10,000,000 dollars. The province's excess of liabilities over assets was largely a function of loans contracted in association with the government's spending on the Quebec, Montreal, Ottawa and Occidental Railway and other railway commitments. As a result of continued borrowing, the financial situation further deteriorated so that towards the end of the century, the debt reached a total of approximately 25,000,000 dollars. This development was a cause of serious financial problems for the province. While from the mid-1870's to the end of the century Ontario appeared to maintain a consistent excess of assets over liabilities, during the same period Quebec's liabilities rose far out of proportion to its assets. By the late 1890's, the difference in the two provinces financial situation was nearly 30,000,000 dollars.

TABLE NO. 7-1
Balance extracted from statements on relationship
of assets to liabilities
Ontario and Quebec (rounded figures), 1875-1897

	Ontario	Quebec
1875	+ 5,100,000	
1879	+ 4,300,000	
1883/85	+ 6,800,000	- 11,200,000
1890/91	+ 5,800,000	- 16,500,000
1895/97	+ 5,100,000	- 24,100,000

N.B. Not until the beginning of the 1880's, did the province of Quebec introduce statements on assets and liabilities. For detailed statements of assets and liabilities, see appendices I to X.

SOURCE: Ontario: Financial Statements of the Treasurers of the Province, delivered in the Legislative Assembly of Ontario, 1875-1895. Quebec: Budget Speeches of the Treasurers of the Province, delivered in the Legislative Assembly of Quebec, 1885-1897.

Some analysts of the period questioned the classification of assets and liabilities made both by the Quebec and Ontario treasurers in their effort to present the respective financial situations under which the provinces were operating. By analyzing the statements of assets and liabilities for the province of Ontario, one finds that it was largely highlighted by what were considered liquid assets (i.e. bonds) and did not include those assets often referred to as physical capital (e.g. Crown lands, railways and public buildings). Some experts contended that the latter items should be included in the financial declaration in order to provide a truer reflection of the real worth of a province.

B. The Classification of Assets

During the 1880's, in both Quebec and Ontario, an intense debate emerged over the nature and definition of assets accumulated and/or distributed by the two provinces. In each province, the nature of the discussion was greatly influenced by the dissimilar financial circumstances in which the respective administrations found themselves. For example, in Quebec, it was vital to demonstrate that both directly and indirectly, the expansion of the railway network markedly increased the province's asset base. In order to defend

themselves against frequent attacks made by the political opposition regarding the accumulation of debt, Quebec Conservative politicians referred to public buildings, railways and Crown Lands as representing part of the province's asset base although money values were not applied to these items.

Clearly, the Quebec Conservatives were relentless in the defense of their railway policy and while they may have considered the consequent debt a "temporary embarrassment to the financial situation", when addressing the population, they insisted that a substantial return was provided on its investment. According to Quebec administrators, it was essential to look at the increased value of natural resources brought about by the railway investments which, among other things, helped facilitate access of certain products to market. Conservative treasurer J.G. Robertson urged Quebecers not to analyze the debt in narrow terms as he concluded that:

When our vast crown domain is taken into account, its great value commercially, the railways which have been built by means of assistance given by the province, and the increased value of property consequent on the railway expenditure, and look at our departmental and public buildings, a credit to any country, and consider that our debt was increased for those improved public works, none of which have been included amongst the assets of the province in the statement submitted...¹

¹ Budget Speech by the Honourable J.G. Robertson, Treasurer of the Province, delivered in the Legislative Assembly, May 7th, 1886, p. 17.

In the province of Ontario, the criticism of the nature of its assets took on a somewhat different form. The Mowat Liberal administration was required to defend the continued sale of its Crown domain which the political opposition regarded as a depletion of the province's assets. During the 1880's, Ontario treasurer A.M. Ross was often required to answer this charge. Unlike Robertson, the Ontario treasurer was not required to present these assets as a counter weight to any provincial debt. Ross generally contended that in the case of Crown lands, one set of assets was merely being converted into a more productive use of capital. In his 1886 budget speech, he claimed that it was essential to examine the way in which the receipts from Crown lands were being applied. The treasurer contended that: "...public buildings are as valuable assets, if constructed for the necessary uses of the Province, as are wild lands or forests. Every financial institution would properly so classify them".² Ross suggested that a farmer, or the owner of an estate, benefitted from the investment in public works such as railways which enhanced the value of the property. These "necessary improvements" were, Ross admitted, in large part generated by the proceeds from Crown lands.

Certain contemporary analysts have supported the view that the

² Speech of the Honourable A.M. Ross, Treasurer of the Province, delivered in the Legislative assembly of Ontario, 18th February, 1886, p. 17.

sale of Crown lands in the nineteenth and twentieth centuries resulted in the often unnecessary exploitation of a valuable asset. This notion was at odds with the prevailing view of the late nineteenth century as it is understood in the context of the limited budgetary options facing the provinces at that time. Therefore, it was not surprising for treasurer Ross to conclude that:

... public buildings and railways are valuable permanent assets, greatly assisting in the growth and development of the province, no one will to pretend to question the same may be said of our public works and colonization of roads. The end of the whole matter therefore is that we have substituted for a portion of the assets we have in lands and timber, other assets more valuable and more productive. There has to be no diminution or waste of assets, one class of assets indispensable and the most valuable of all conceivable assets has been substituted for another.³

In the early 1890's, as the opposition intensified its attacks on the perceived decline of Ontario's excess of assets over liabilities, the provincial treasurer made reference to the Crown lands in terms to which they would previously not have referred to in discussing the overall financial situation. In 1894, Ontario treasurer H.R. Harcourt observed that in their financial statements, all commercial corporations invariably included properties of whatever nature as assets. If Ontario followed this method, Harcourt suggested that the value of the province's declared assets would increase many times. He mentioned among other things, Parliament buildings owned by

³ Budget Speech of the Honourable Treasurer of the Province, 19th February, 1892 Toronto: Queen's Printer, p.6.

the province as well as valuable timber and mineral lands.⁴ During the nineteenth century, the latter items, while certainly considered assets, were not deemed applicable to the balance sheets of the provinces.

At the turn of the century, the Ontario Government appointed a Royal Commission for the purpose of inquiring into and reporting on the financial affairs of the province. The issue of properly classified assets and liabilities was given special attention by the Commission. The Commissioners concluded that: "it is obvious that the ordinary commercial interpretation of what are assets and liabilities cannot be profitably applied to a province in possession of extensive powers of taxation".⁵ They noted that whereas a municipal body had limited taxation powers, all the property of the municipality which could be used to discharge obligations was generally treated as an asset. The Commissioners contended that it would be unwise to apply this rule to the Province of Ontario whose territorial rights were exercised quite apart from considerations of gain or of indebtedness. They added that it would be "inconvenient and unnecessary to bring to

⁴ Financial Statement of the honourable H.R. Harcourt, Treasurer of the Province, in the Legislative Assembly of Ontario, 6th March, 1892, pp. 6-7.

⁵ "Report of the Royal Commission on the Financial Position of the Province of Ontario", 13th February, 1900, in Ontario Sessional Papers, volume XXXIII, Part IX, no. 52., 1901, p. 21.

account in the Treasury books the unpaid purchase moneys of public lands actually sold". Apart from Crown lands whose sale was considered a matter of public policy, Ontario possessed certain Parliament buildings and other Public institutions no longer in use which in the case of a municipality would be properly returned as treasury assets. In the case of the province of Ontario, the Commissioners believed that it would be unwise to regard them in this way.⁶

Although the Commissioners held that the asset side of the Ontario balance sheet should be confined to what were called treasury assets, they recommended that a separate record be kept of certain properties that were not defined as such. The administration could legitimately produce a statement of the properties connected with its various departments of government and the institutions belonging to the people under control of the Crown as represented by the provincial Government. The Commissioners concluded that:

...the most valuable assets possessed by the Government, viz, those under control of the Crown Lands Department, are not susceptible of being treated in statements in which money values are the precise measure, but much information regarding the value of such assets might reach the people under an enlarged scheme of statistical returns.⁷

Until the early twentieth century, physical capital was not considered a basis for the surplus of assets declared by the

⁶ Ibid.

⁷ Ibid, p. 26.

province of Ontario. Therefore, while the debate over the classification of physical capital was politically significant, it was of less importance than the dispute which emerged over the nature of assets which both Quebec and Ontario procured from the Dominion. In Ontario, the value and classification of such assets was more a source of controversy as they ultimately constituted the basis of that province's excess of assets over liabilities. It is essential to consider the origin of these assets to understand how Ontario avoided the predominance of liabilities from Confederation to the end of the nineteenth century.

c. Pre-Confederation Assets

Although Ontario treasurers were careful in their presentation of statements on assets and liabilities, a significant degree of criticism regarding the declared surpluses emanated from two sources. On the one hand, as we have observed, the Ontario political opposition to the Mowat government was concerned with the classification of certain assets which were carried over from the pre-Confederation period. The other major source of disagreement stemmed from Quebec politicians who questioned the control of certain assets declared to be almost exclusively the property of the Ontario provincial government in the years following Confederation. Quebec officials maintained that the designation of a number of valuable assets to Ontario provided the latter with a

considerable financial advantage over its neighbour upon entering the Confederation. The charges made by Quebec treasurers had the effect of putting into question a significant portion of the balance sheet laid out by the Mowat government in future years. For their part, Ontario treasurers insisted that the allegations made by Quebec regarding the ownership of such assets had no foundation. This dispute contributed to some tension between the two provinces, especially as by the late 1870's, Quebec found itself in a difficult financial situation.

The provinces of Quebec and Ontario had divergent expectations regarding the partition of assets and debt under the Confederation arrangement. The BNA Act dissolved the partnership which existed for approximately 26 years prior between the late Provinces of Upper and Lower Canada. According to Section 142 of this Act, it was stipulated that:

...the division and adjustment of the debts, credits, liabilities, properties and assets of Upper Canada and Lower Canada shall be referred to the arbitrament of three Arbitrators, one chosen by the Government of Ontario, one by the Government of Quebec and one by the Government of Canada.⁸

This section represented the most important reference in the BNA Act to the arbitration between Quebec and Ontario, dealing with the vital fiscal issues pending between them. The excess

⁸ See "Memorandum Submitted on Behalf of the Province of Quebec: Functions of the Arbitrators..." in Quebec Sessional Papers, 36 Victoria, No. 27, 1873, p. 72.

of the provinces' debts, in addition to the assets, credits, liabilities and properties of Upper and Lower Canada were to be divided and adjusted according to the decision of the arbitrators.

Following Confederation, there appeared a strong desire both on the part of Ontario and Quebec administrations to resolve the outstanding fiscal questions between them as soon as possible. The longer the issue remained unresolved, the less propitious it seemed for both provinces. Over the course of arbitration, it seemed clear that the province of Quebec, much to its disappointment, was merely to be credited with numerous small assets that were of a local character. Quebec insisted that it had an interest in many of the assets, particularly, the larger ones either wholly or largely claimed by Ontario. This was true for the Municipal Loan Fund, the Upper Canada Grammar School Fund, the important Upper Canada Building Fund and, in particular, what were known as the Common School lands, also referred to as the Common School Fund. Most of the property and capital generated from these assets was situated in the territory of Upper Canada. Nonetheless, certain Quebec officials felt that if, for example, the total pre-1867 debt was to be divided up by population, pre-Confederation assets should be treated in the same manner.

Following the enactment of Confederation, the province of

Ontario credited itself with nearly 2,700,000 dollars emanating principally from the three major pre-Confederation assets (the Grammar School Fund 312,769 dollars, the Upper Canada Building Fund 1,472,391 dollars and the Common School Fund 946,000 dollars). For its part, Quebec obtained several hundred thousand dollars derived from the Common School Fund. As we noted in Chapter 3, beginning in 1867, Ontario pre-Confederation assets generated nearly 140,000 dollars in annual interest. This arrangement was deemed to be rather unfavourable to Quebec which would not benefit from the annual interest as did its neighbour. Henceforth, the debate over the division of these assets arose and would continue through the remainder of the nineteenth century. Ontario made a strong case for its claim to the larger assets. It had little intention of allowing an "equal division" of the assets which Upper Canada had nurtured prior to 1867. Officials rejected the notion of "equal financial terms" at Confederation which they believed would have constituted an unfair penalty to Ontario.

The principle that guided Ontario's view on the division of assets was that each item should be left in the province in which it arose, especially since these pre-Confederation assets derived from investments which, according to Ontario politicians, were employed for local rather than for general purposes. Ontario felt that there was no justification

whatsoever to divide the larger assets which it claimed were "...derived from lands within Ontario, and applicable to objects within Ontario solely".⁹ In some cases, the creation of a pre-Confederation asset was an offset to funds extended to Lower Canada in the pre-Confederation period. In the case of the Upper Canada Building Fund, for example, Ontario pointed out that it was created to offset payments provided by Lower Canada for certain lands under the Seigniorial Tenures Act of 1854. Ontario officials claimed that Upper Canada was often insufficiently compensated when considering the sums Lower Canada withdrew from Consolidated Funds prior to 1867.

As Quebec made claims on the larger assets in Ontario's possession, it refused to accept the latter province's contention that it had failed to receive equitable compensation for payments made to Quebec in the pre-Confederation period. Counsel for Quebec disputed the mode of division of the assets based entirely upon the proportion of local debt and the location of the origin of the asset. Such an approach, according to Quebec, wholly ignored the large expenditures made during the pre-Confederation for the local advantage of Upper Canada (e.g. railways and the construction of public buildings) and which left no assets to be divided. Quebec concluded that the Common School funds were employed for general purposes prior to Confederation and as such should

⁹ Ibid, p. 80.

form part of the Consolidated Fund which, it hoped, would divide equally the total assets amassed by the provinces to 1867. The province of Quebec defined these pre-Confederation assets as the:

...balances of sources of public revenue or the proceeds of public properties (which is the same thing) of the late Province of Canada, set apart for special services of a general nature and which would have been defrayed out of the common treasury, had the Government made, for purposes of its own, special provisions for them and affected for their requirements certain special heads of public revenue.¹⁰

Prior to the final arbitration in 1870, the Quebec representative, Charles Dewey Day, submitted his resignation which was quickly accepted by the Quebec government. J.G. Robertson attributed the resignation of Charles Dewey Day to the belief that the other Federal and Ontario representatives had made a preliminary judgement with respect to the arbitration. He added that the two arbitrators were obliged to strictly observe a particular point of view which prejudiced the outcome of the case and that the loss of objectivity limited available options. As a consequence, Robertson concluded that: "...sur tous les points, les arbitres se prononceraient en faveur d'Ontario et contre Québec".¹¹ Charles Dewey Days's resignation left the final decision to be approved by the arbitrators of the Government

¹⁰ Ibid, p. 76.

¹¹ Discours sur le budget prononcé à l'Assemblée Législative, le 24 novembre 1871, par l'Honorable J.G. Robertson, Trésorier de la province de Québec, p. 8.

of Canada and the Government of Ontario. On September 3rd, 1870, the two arbitrators declared that indeed those assets which were developed in Upper Canada or Lower Canada were not of a general nature and therefore they should be directed to either Ontario or Quebec based on the area in which they were situated. In the case of the Common School Fund, however, it was decided that this would be a shared asset held in trust by the Dominion and divided according to the regulation of the provinces at the census of 1861.¹² Still, the interpretation of what sharing meant diverged between the two provinces and this resulted in a series of legal challenges over the Fund which lasted into the early twentieth century.

The greatest source of controversy in the division of the pre-Confederation assets between the provinces of Ontario and Quebec centred mainly around the disposition of the Common School Fund. This issue intensified as Quebec recognized it would be unable to procure any advantage from the other large assets. Created in 1849, the Common School Fund consisted of approximately one million of acres of land situated in the province of Canada, the interest from its sale to be divided between Quebec and Ontario. Section 109 of the B.N.A. Act stated that: "...all lands and capital, and moneys arising

¹² Accounts of the late Province of Canada and the Provinces of Ontario and Quebec with the Dominion of Canada: From 1st July, 1867, to 30th June, 1883. Printed by Maclean, Roger & Co., Ottawa, 1884, p. 7.

from lands and capital shall belong to the several Provinces in which the same are situate or arise, subject to any trusts existing in respect thereof, and to any interest other than that of the province in the same"¹³. Counsel for Ontario submitted to the federal arbitrators that there existed no other interest in these lands other than that of their province. By 1867, the amount to the credit of the Fund was slightly over 1,600,000 dollars, the outstanding amounts which remained uncollected totalled 1,700,000 dollars and nearly 9,000 acres had not been sold. The decision of the arbitrators in 1870, enabled the Dominion to continue to hold the Fund and pay interest to Quebec and Ontario on the basis of the proportion of their population in 1861. As for the remainder of the lands, their sale and management was to be administered by the Ontario government which would receive a commission in lieu of purchase and payment.¹⁴

Quebec was dissatisfied with the decision of the arbitrators and appealed the award to the Judicial Committee of the Privy Council. The province of Quebec claimed that without the presence of a Quebec arbitrator, the ruling could not be considered valid. Quebec wondered whether after one of the

¹³ Statement of the Case of the Province of Ontario in "Memorandum of Informal Conference held in Montreal the 24th July, 1869 on the subject of the debt of the late Province of Canada" in Ontario Sessional Papers, 36 Vict., no. 27, 1873, p. 59.

¹⁴ "Accounts of the late Province..." op. cit., p. 7.

arbitrators had resigned his office and his authority had been revoked, the remaining two could legally proceed to hear the case and make a final award. While awaiting the decision of the Judicial Committee, Ontario provided little remuneration to Quebec from the sale and management of lands. In the year 1872, Ontario passed legislation with respect to the Common School Fund which stipulated that:

1. The Lieutenant-Governor-in-Council shall have authority to reduce the prices of any Common School Land sold by the Crown previously to the first day of July, in the year one thousand eight hundred and sixty-seven, when it shall appear that such land has been sold at a price beyond its fair value and that price remains unpaid;

2. The Lieutenant-Governor-in-Council shall also have authority to make such abatement as may appear equitable and just of the arrears of interest upon the unpaid instalments of the purchase money of any Common School Land sold by.¹⁵

There was a feeling on the part of certain Quebec officials that the 1872 Ontario legislation was a recognition of Quebec's important share in the Common School Fund. The Quebec government was optimistic that the Judicial Committee would render a decision that would ultimately help pave the way for a more appropriate division of assets than that established by the 1870 decision. In his 1878 budget speech, Quebec treasurer L.H. Church concluded that:

Until the decision of the Privy Council and the final adjustment of the accounts between the two

¹⁵ For a review of the evolution of the dispute over the Common School Fund, see "Budget Speech" delivered by the Honourable P.S.G. Mackenzie, Provincial Treasurer in the Legislative Assembly of Quebec, January 24th, 1911, p. 32.

provinces, it will be impossible to ascertain precisely how the Province stands financially. But enough is known to show that when the time comes, it will be found that the large surplus (assets over liabilities) which Ontario with much complacency claims, that by inclusion of trust funds which did not belong to her will be considerably diminished and the position of Quebec very naturally improved.¹⁶

Church recognized that any change to the division of assets which might produce additional income for Quebec would be useful at a time when financial burdens were continually rising. He expressed an optimistic view that: "...when advantages expected from the division of assets come, they will nonetheless be welcome if they should result in enabling the Treasury to reduce some of the imposts which might have recently been laid on".¹⁷ Much to the dismay of the Quebec treasurer, the Judicial Committee upheld the 1870 decision insofar as it concerned the legitimacy of the arbitration without the participation of the Quebec representative. On that basis, the Judicial Committee advised the parties involved in the dispute to govern themselves accordingly. This still obliged Ontario to comply with conditions set out in the 1870 arbitration regarding the Common School Fund whereby Quebec did maintain a certain share of the asset. The Ontario administration was not fully satisfied with the decision of the Judicial Committee regarding the Common School

¹⁶ For an analysis of the budget speech of the Honourable L.H. Church, Treasurer of the Province of Quebec, on 31st December, 1878, see Gazette, February 1, 1878, p. 2.

¹⁷ Ibid.

Fund in the sense that the province was still required to pay certain sums to Quebec. In his 1883 budget speech, Ontario treasurer S.C. Wood stated that a "very grave injustice" had been committed against his province. He noted that:

...the arrangement by which we are required to pay over hundreds of thousands of dollars to the Province of Quebec is all wrong...take on the other hand the Seigniorial Tenure Fund, where they took certain local revenues from the Province of Quebec, capitalized the money for all time...and when Confederation was brought about, these local revenues were handed back to the Province of Quebec.¹⁸

Some provincial politicians hoped that the decision of the Judicial Committee opened the way towards a final settlement of all outstanding accounts between Quebec and Ontario.¹⁹ But disagreement over the meaning of the conditions arising from the decision continued through the 1890's, obliging Quebec to pursue the matter before the courts. The dispute was even further aggravated as Ontario made little effort to collect the balance due on numerous land sales and frequently changed the conditions and terms of certain sales enabling the purchasers to refrain from paying for the lands. Quebec objected to the remissions and called for payment of monies arising from the lands that were sold. The Ontario government

¹⁸ Financial Statement of the Honourable S.C. Wood, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, 10th January, 1883, pp. 11-12.

¹⁹ See review of the question in Financial Statement of the Honourable A.M. Ross, Treasurer of the Province, in the Legislative Assembly of Ontario, 14th February, 1889, p. 22.

continued to question Quebec's claim to these sums on the ground that the remissions were made in good faith by the act of a prudent administration working in the interest of the Common School Fund.²⁰ Rather than periodically paying the amounts, Ontario did indeed retain the accumulated sums and only through the persistence of the Quebec administration was the sum of 250,000 dollars obtained over the first three decades of the Federation.²¹

In the late 1880's, some hopeful signs emerged leading to a possible resolution of the matter. At that time the Mercier administration made a concerted effort to resolve the dispute over the Common School Fund and several overtures were made to the government of Ontario with a view to arriving at an amicable resolution of the question. In February 1889, treasurer Joseph Shehyn announced that an agreement was reached whereby for the purposes of arriving at a settlement all points would be submitted to arbitration. Pursuant to this, the two provincial governments passed legislation entitled "An Act providing for the settlement of certain questions in dispute between the provinces of Quebec and Ontario by means of arbitration". Section 1 of the Act provided that for the final and conclusive determination of

²⁰ Budget Speech delivered by the Honourable P.S.G. Mackenzie, Treasurer of the Province, in the Legislative Assembly of Quebec, January 24th, 1911, p. 31.

²¹ Ibid, p. 25.

the questions in dispute "the Lieutenant-Governor-in-Council may unite with the government of Ontario in the appointment of three arbitrators to whom shall be referred such of these questions as the governments of the said provinces mutually agree to submit"²².

Although the arbitrators were named, there still persisted a difference of opinion between the two governments as to what matters should be referred to them. While Quebec believed that the arbitration should be confined to the question of the Common School Fund, the Ontario government wished to submit certain other matters which would diminish the amounts supposedly due to Quebec. This created further delays in the settlement of the division of assets. As a result of this impasse, in 1889 Ontario treasurer A.M. Ross recommended that the Dominion credit the balance from the Common School Fund to Ontario and leave Quebec to contest the charge if so inclined.²³

²² "An Act providing for the settlement of certain questions in dispute between the provinces of Quebec and Ontario by means of arbitrators" in Statutes of Quebec, [assented to 12th July, 1888], 51-52 Vict., Cap. 12, 1888, p. 42 and "An Act respecting arbitration with the Province of Quebec", [assented to 23rd March, 1888], in Statutes of Ontario, 51 Vict., Cap. 3, 1888, p. 9. See also Budget Speech delivered by the Honourable Joseph Shehyn, Treasurer of the Province, in the Legislative Assembly of Quebec, on the 15th February, 1889, p. 40.

²³ Financial Statement of the Honourable A.M. Ross, Treasurer of the Province, in the Legislative Assembly of Ontario, 14th February, 1889, p. 34.

By an award of the arbitrators of November 1893, it was decided that the Trust Funds which were the property of the provinces of Ontario and Quebec and held by the Dominion since the Confederation, "shall be treated as intact and unimpaired, and interest thereof at the rate of five per cent per annum, carried half-yearly into the separate account of Ontario and Quebec"²⁴. On the basis of the latter decision, in January 1894, the Quebec Legislature passed an "Act to provide for the final settlement of the Common School Fund". The Act called upon the province of Ontario for "an amount to be paid" from the uncollected balances of the prices of certain lands and the value of other lands unsold. The Act also sought an "agreement" with Ontario and the Dominion to affect a final payment of the principal of the Common School Fund as ascertained and determined by the arbitrators or agreed to by the provinces.²⁵

But Ontario continued to challenge the decision and once again brought it before a higher authority. During the early twentieth century, Ontario's view was upheld as neither the Privy Council, the Supreme Court nor any panel of Arbitrators appeared competent to rule on the uncollected balances and

²⁴ "An Act to provide for the final settlement of the Common School Fund" [Assented to 8th January, 1894], Statutes of Quebec, 54 Vict., Cap. 3, 1894, p. 25.

²⁵ Ibid.

remissions of the Common School Fund.²⁶ In the interim, Ontario had paid much of the sum it was believed to be liable for from the sale of a portion of the lands. In the final analysis, therefore, Quebec made no progress on the Common School Fund until the twentieth century, while the Ontario government benefitted significantly from this asset throughout the latter half of the nineteenth century. Approximately 1,300,000 dollars was collected by Ontario in annual interest from this source between 1867 to 1897 whereas Quebec obtained 250,000 dollars.

D. The Ontario Situation

As we noted in the previous chapter, in the early years of the Federation, Ontario and Quebec were able to generate surpluses in their annual operations. We observed that Ontario was particularly successful in this regard, enabling it to consider a number of options for employing its excess funds. Under the Conservative administration of Premier Sanfield Macdonald, the province of Ontario's annual surpluses were carefully nurtured and by 1871, the Toronto Globe pointed out that the government had reached a unique position, "for the first time in the history of the country, the House has to deal with a surplus which had been accumulated in the Treasury

²⁶ Budget Speech delivered by the Honourable P.S.G. Mackenzie, Provincial Treasurer, in the Legislative Assembly of Quebec, January 24th, 1911, pp. 131-132.

of Ontario"²⁷.

From Confederation to the early 1870's, the Sanfield Macdonald administration believed that it would be unwise to spend the surplus without ascertaining the liability for which the province was potentially responsible as a result of the pre-Confederation excess debt. Ontario Conservative treasurer E.B. Wood maintained that with a sizeable amount of the surplus funds permanently invested, they might eventually be employed to liquidate a portion of the debt of the Dominion. He also contended that by carefully guarding the funds, the province would be protected against any new contingencies arising from the growing needs of the constantly increasing population and a possible downturn in economic conditions.

Nonetheless, Wood did conclude that a large portion of the surplus funds should be permanently invested. Ontario had begun to place the funds in long term investments most notably toward the purchase of 5,000,000 dollars of interest bearing Dominion bonds. By the early 1870's, the Ontario Conservatives in the midst of a debate over the disposition of the surplus, began exploring how a portion of it might be used to develop the resources of the province. Both Ontario political parties recognized that the public was eager to see some of the moneys employed for either railway construction or

²⁷ Globe, 8th February, 1871, p. 3.

relief of municipal debt. At the time, the opposition provincial Liberals led by Oliver Mowat suggested that the existence of a large surplus of assets over liabilities was an anomaly. He contended that:

It would be the absurdest policy in the world for the population of the present day to reserve permanently the whole of that balance in order to benefit our successors at our expense. The country is getting richer, there will be a large population in it by and by [sic] and the generation to come will be better able than we are to bear whatever expense it may be necessary for that generation to incur.²⁸

Clearly, the existence of a significant surplus increased the population's desire for intervention in developmental projects.

As the recession approached, in the mid-1870's, it seemed unlikely that the Ontario Liberal government would be able to sustain the financial position which it inherited from the Sanfield Macdonald administration. By 1873, the surplus of assets over liabilities was approximately 5,000,000 dollars. As economic conditions deteriorated, the successors to Sanfield Macdonald intensified their political attacks against the Mowat Liberals. When in the mid-1870's, the Ontario Liberal administration produced statements on assets and liabilities, the political opposition criticized what they considered an effort to maintain the level of assets by including certain questionable items. The controversy

²⁸ See Margaret Evans, op. cit., p. 426.

initially centred around the Mowat government adding the pre-Confederation assets, which represented approximately 2,700,000 dollars, to the balance sheet. The opposition held that such funds should not be included until such time as the entire dispute between Quebec and Ontario was settled.²⁹

The Conservative opposition charged the Mowat government with unjustly classifying these funds in order to cover up its depletion of the surplus accumulated under the administration of Sanfield Macdonald. The Toronto Daily Mail noted that the funds had been kept separate from other assets under the Macdonald administration and until 1874, the Liberals had respected this practice. The Mail concluded that:

...in comparing the recent financial position of the Province with its position under that of Mr. Sanfield MacDonald, it is manifestly unfair now to include a fund which equally existed then, but which the late administration and the present Treasurer both kept out of the balance sheet.³⁰

The Mail added that if it were appropriate to include the assets in 1874, then it was equally acceptable that they be considered part of the balance declared under the administration of Sanfield MacDonald in 1871. The declared surplus of assets over liabilities was, according to critics, made to conform to the circumstances of the period in order to maintain the appearance of a surplus. Throughout the remaining years of the nineteenth century, the political

²⁹ Toronto Daily Mail, February 21, 1874, p. 2.

³⁰ Toronto Daily Mail, November 20, 1874, p. 2.

opposition constantly reiterated this position.

When the term of Sanfield Macdonald ended, his successors estimated that there was a 4,000,000 dollars surplus. When in opposition, the Conservatives remarked that since their defeat, despite a series of annual deficits, the provincial surplus according to the Mowat administration had, from 1872 to 1876, managed to increase to 7,000,000 dollars. The opposition charged that "...for every million that had gone to the melting pot, a million and three quarters dropped from the moon or some other quarter...".³¹ The Toronto Daily Mail suggested that Ontario Liberal treasurers had discovered a method to cover up the province's true financial situation. The Mail concluded that:

...the fact is [that] every year, Mr. Wood hunts up some old asset, pretends that it is something new, and as Mr. Creighton [the opposition budget critic] pointed out, includes it as part of the surplus in order to hide the deficiencies.³²

As the annual deficits of the Ontario administration failed to dissipate, in the latter half of the 1880's, the Liberal government was vulnerable to criticism. The opposition made a concerted effort to demonstrate the contradiction between the constantly rising surplus of assets over liabilities in the face of a long series of annual deficits. The opposition pointed to the continual reduction in the Dominion government

³¹ Toronto Daily Mail, February 22, 1886, p. 2.

³² Toronto Daily Mail, January 12, 1883, p. 4.

bonds arising from the depletion of the original accumulation which constituted the basis of the Sanfield Macdonald administration's surplus. In the December 31st, 1890, statement on assets and liabilities, the item Dominion Bonds and debentures accounted for approximately 200,000 dollars. The same item five years earlier, was evaluated at 500,000 dollars (see appendices III-IV).³³

By the early 1890's, the Conservative opposition demanded that the government not hide the true "state of affairs" from the public regarding the relationship between assets and liabilities. They accused the Mowat administration of having concealed the impact of accumulated deficits by the use of "cooked statements" not only on assets but on liabilities as well. To look at the Public Accounts of the province superficially it would, according to the opposition, be difficult to ascertain how Ontario had been disposing of its deficits.³⁴

The opposition contended that the introduction of railway annuities into the budget was yet a further attempt by the Mowat administration to defer ordinary disbursements on railways in order to avoid further jeopardizing the surplus. Opposition spokesman Adam Creighton concluded that:

³³ Toronto Daily Mail, February 14, 1890, p. 8.

³⁴ Ibid.

The government was very careful to parade before the people every year the statement that they had on hand a large sum. Whenever there was a danger of the surplus going down they found the way, and means of raising the wind. One way was for the Treasurer to borrow money to meet railway payments, but then he did not show the money borrowed and...[kept] the surplus at a standstill by selling annuities. The honourable gentleman was now forced to admit that eventually this mode was not sufficient to keep the surplus where it was.³⁵

Some Quebec politicians joined with the Ontario political opposition in questioning the surplus of assets presented by the Mowat administration. Such statements on the part of Quebec officials must be understood in terms of the frequent comparisons made between the two provinces which were always unfavourable to Quebec. In 1886, a prominent Quebec Liberal remarked that the regular annual deficit of the Mowat administration had absorbed that small surplus amassed by the Sanfield Macdonald administration.³⁶ Ironically, the Quebec spokesman criticized the use by Ontario of railway annuities to pay the balance of the province's subsidies.

The Mowat government rejected the opposition's charge with regard to the misuse of railway annuities. It was perfectly legitimate according to treasurer H.R. Harcourt not to classify the annuities as ordinary expenditure. No

³⁵ Toronto Daily Mail, February 19, 1886, p. 2.

³⁶ For an interesting comparison of the Quebec and Ontario financial situations, see the speech of the representative of Montmorency riding, Mr. Desjardins, in "Suite de la discussion générale sur le projet de budget" in DALQ, 11 mai 1886, p. 1106.

government, he pointed out, treated such obligations as ordinary public debt. Harcourt insisted that:

if these annual railway payments and annuities extending over a period of more than 30 years and not drawing interest are to be capitalized and treated as a present debt, then, to be consistent so as to treat the credit and the debit sides of the account alike, we must be allowed to capitalize our fixed yearly receipts guaranteed to us for all time...³⁷

In 1900, the Royal Commission on the financial position of Ontario upheld the position of the Conservatives on the classification of annuities. The Commissioners concluded that:

The various certificates issued as aid to railways and the annuity certificates extending the same are included as a liability of the Province. The aggregate present value of these is less than a single year's revenue. The practice of the Department is to regard them as a charge, upon future years and not as a liability presently payable. That they will be paid from the revenue of investments may be regarded as highly probable, but in the opinion of the Commissioners, they should not on that ground be omitted from any statement of liabilities.³⁸

Following the Royal Commission's conclusion, Ontario treasurer, George W. Ross, conceded to the opposition that the province's railway obligations (both annuities and certificates) did constitute a liability (although he added, "in a certain sense of the term") and approximately 3,000,000

³⁷ Financial Statement of the Honourable H.R. Harcourt, Treasurer of the Province in the Legislative Assembly of Ontario, 6th March, 1894, p. 38.

³⁸ "Report of the Royal Commission on the Financial Position of the Province of Ontario..." op. cit., p. 24.

dollars were ultimately classified as such (see appendix VI). At the same time, he called on the Conservatives to be equally fair in accepting that numerous items on the balance sheet which they had called into question, particularly the amount of the 1884 settlement, were in fact assets.

During the early 1890's, virtually all that remained amongst the Ontario assets were the pre-Confederation assets. Given the government's insistence upon classifying these holdings as assets, the opposition claimed that the province possessed no real surplus and that which was being presented was fictitious.

The Conservatives contended that apart from the pre-Confederation assets, the Mowat surplus had been swelled by the inclusion within the province's statement on assets and liabilities of the return by the federal government of interest payments made by Ontario on the 10,000,000 dollar pre-Confederation excess debt. From 1867 to 1873, these payments were made until the passage of the Tilley Act through which full responsibility for the debt was assumed by the federal authorities. The provinces requested that their interest payments made from 1867-1873 be returned with interest. In 1884, after much negotiation, the provinces of Ontario and Quebec were provided with a fund valued at approximately 2,800,000 dollars and 2,500,000 dollars

respectively. The new fund generated annual interest of about 145,000 dollars to Ontario and approximately 127,000 dollars for the province of Quebec.

A most vehement debate with regard to the disposition of assets concerned the classification of this fund which appeared in the balance sheet of the Mowat administration in the mid-1880's. The opposition held that it was not a "realizable fund" but rather a part of the Dominion subsidy in the same vein as the yearly subsidy and grant given to the provinces by the Confederation arrangements.³⁹ Notwithstanding the interest payments which it provided as the fund was not deemed to be convertible into cash, the opposition contended that it should not be included amongst the province's assets. On the other hand, the Mowat administration maintained that under certain conditions set out by the Dominion, the sum could be procured with Parliamentary approval for the payment of outstanding liabilities.

Towards the end of the century, Premier and treasurer George W. Ross dismissed the allegations made by the Conservative opposition regarding the classification of these assets. He

³⁹ See response to opposition's view in Financial Statement of the Honourable George W. Ross, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, 8th March, 1900, p. 29.

pointed out that the Dominion considered these assets as "capital owed" to the provinces and the interest generated by these funds was proof that the principle belonged to the province. He pointed out that other provinces which had assets held by the Dominion were able to deduct them from the debts they owed to the federal authorities. (Although Quebec did not do this in the case of this particular asset). Given this situation, Ross stated: "...are we, then not clearly entitled to treat it as an increase of our assets? Most assuredly we are; there can be no question about that".⁴⁰

While examining the financial position of the province of Ontario, the Royal Commission considered the nature of the assets which the Mowat government had for some time considered a legitimate part of its balance sheet. By 1900, the Ontario government was looking into all possible sources of income and the question of the assets arose in part out of the changing financial circumstances of the province and the return to favourable economic conditions. In this regard, ascertaining the province's financial standing was considered vital to determining its future actions. Also, in that year, the treasurer stated that the endless debate with the opposition over the surplus had become "monotonous" for both parties and a definitive conclusion was needed. One of the major items of contention was the 2,800,000 dollars allocated in 1884. In a

⁴⁰ Financial Statement delivered by the Honourable A.M. Ross, Treasurer of the Province, in the Legislative Assembly of Ontario, 13th February, 1885, p. 25.

letter addressed to then federal Minister of Finance, W.S. Fielding, the treasurer of Ontario, George W. Ross, wrote that:

Although we have not called on the Dominion for repayment of this money, we have assumed in our accounts that it belongs to the Province, and that if we desired to use it for Provincial purposes, we would have been free to do so.⁴¹

In his reply referred to by the Commissioners, the federal Minister of Finance stated that: "I do not think that your Government have [sic] an unconditional right to demand this money from the Dominion". Fielding pointed out that under statute, certain limitations did exist with regard to the use of the funds. Nonetheless, if the province wished to obtain the money, he added that it could easily comply with the conditions. The funds at the credit of the province could be withdrawn for the purpose of assisting in the construction of provincial public works, according to the interpretation provided by Statute. Fielding expressed the view that:

...you would not have the right to draw these moneys for the ordinary purposes of government, but that Parliament intended that they might be withdrawn by a provincial government, with the previous sanction of the Legislature for local improvements.⁴²

Fielding did not see the benefit for the province of Ontario

⁴¹ See correspondence between W.S. Fielding and George W. Ross in "...Royal Commission on Financial Position..." op.cit., pp. 23-24.

⁴² Ibid.

should it decide to convert the assets. He noted that the payments which Ontario received as a result of the funds being held by the Dominion were extremely interesting for the province. The federal treasurer concluded that:

the advantages to the province in permitting these moneys to remain to the credit of the Province in the Dominion, where they yield to the Province five per cent interest, are so obvious that I do not suppose you are contemplating their withdrawal. As a pure matter of finance between the Dominion and the Province, it would of course be profitable to the Dominion to pay you the money, you could easily comply with these conditions...⁴³

The Ontario Royal Commission appeared to have resolved, in favour of the Liberals, the long-standing dispute over both the 1884 asset and the pre-Confederation assets. In 1900, the treasurer of Ontario proudly boasted that the validity of all assets was upheld by the Commission and that the province had in its possession slightly over 7,000,000 dollars. Still, the Conservative opposition did succeed in getting railway obligations and items related to the debts emanating from the Common School Fund to be treated as liabilities. Whereas prior to the end of the century liabilities were insignificant against the declared assets, by 1900, almost 5,000,000 dollars in liabilities were identified by the administration (see appendix VI). Between 1895 and 1900, the excess of assets over liabilities was reduced from 5,000,000 dollars to 2,000,000 dollars mainly as a result of the recommendations regarding classification made by the Royal Commission.

⁴³ Ibid.

Referring to the 2,000,000 dollar surplus, George Ross pointed out that this was where the province had always stood and he believed every businessman would congratulate Ontario for its financial performance. The treasurer concluded that:

We are starting the closing year of the century with a record that makes us feel that we are entitled to more, indeed, of the confidence of the country than perhaps we had received owing to the representations or misrepresentations, made with regard to us by some honourable gentlemen in this house and out of it.⁴⁴

The provincial Conservatives correctly observed that the asset base presented by the Mowat administration changed substantially over the decades. The surplus of assets so frequently hailed by the Mowat administration was largely a function of successful negotiations with the federal authorities rather than the collections from accumulated annual surpluses as was the case under the Sanfield Macdonald administration. Still, the Mowat government's ability not to permit severe deterioration of the surplus despite the economic recession was an important development both from a fiscal and a political standpoint.

E. The Quebec Situation

(i) The early surplus

When by the early 1870's, the very important political debate

⁴⁴ Financial Statement of the Honourable George W. Ross, Treasurer of the Province of Ontario, delivered on the 8th March, 1900, in the Legislative Assembly of Ontario, pp. 35-37.

over the disposition of the surplus intensified in the province of Ontario, similar proceedings had already come to a close in Quebec. Moreover, in the latter province, discussion around the existing surplus generally reflected the very modest size of the sums which were produced by provincial treasurers. For example, in March 1869, Christopher Dunkin proudly boasted that Quebec possessed an accumulated surplus of nearly 700,000 dollars.⁴⁵ While under other circumstances this total may have received favourable praise, alongside the amounts which were produced by the neighbour province, the results merely seemed adequate. Nonetheless, the treasurer was in a position to direct the surplus funds at certain important areas of expenditure on the province's regular budget. An apparent example was the increased amount offered to colonization roads which proved to be the forerunner for the larger railway projects which the government ultimately financed. In addition to this, a certain amount of the accumulated surplus funds were placed in the Bank of Montreal under what the treasurer at the time regarded as very favourable terms.⁴⁶

Not everyone agreed with the way in which the Quebec Conservative administration employed the funds. The leader of the Quebec political opposition Henri G. Joly, suggested that

⁴⁵ Marcel Hamelin edit., DALQ, 17 décembre, 1869, p. 122.

⁴⁶ Ibid.

the treasurer should have placed the province's surplus in either debentures or Dominion funds. He referred to the positive results that this practice produced in Ontario and contended that these investments were potentially quite advantageous.⁴⁷ Considering however that Quebec only possessed the surplus for a very short period of time, it was not surprising that it resisted the purchase of either long term stocks or assets. In Quebec, it generally seemed that there was a desire to keep the existing surplus funds readily accessible in the event that they should be needed in the more immediate term. This view was initially held by Ontario administrators who recognized that a portion of their surplus might be needed in the event of the need to meet possible future contingencies. When, in the case of Ontario, the amount which it had accumulated surpassed what it considered necessary to meet potential near term commitments, it distributed a portion of the funds to railways and municipalities.

In the mid-1870's, H.G. Joly was astonished by the favourable financial conditions under which the formerly debt ridden pre-Confederation provinces were operating in the initial years of the Federation. Indeed, with respect to Quebec's annual financial performances, he expressed the view that "...ces surplus ne sont que fictifs, ils pourront se maintenir un an

⁴⁷ Ibid, 9 mars, 1869, p. 147.

ou deux, et le pays ne doit pas se méprendre de leur caractère".⁴⁸

In the mid-1870's, any possibility of maintaining a certain degree of equilibrium in Quebec between assets and liabilities was severely disrupted by the provincial administration's participation in large-scale railway financing highlighted by the takeover of the Quebec, Montreal, Ottawa and Occidental Railway. When the government first considered purchasing the railway with its possible financial repercussions, there was a recognition that the spectre of debt which stemmed from the pre-Confederation experience still haunted certain sectors of the population. Past experience with regard to government financing of railways had proven that fiscal calamities were certainly not improbable. Still, the population's attraction to railway expansion seemed to outweigh the fear of being burdened by debt. Perhaps, the years of relative fiscal stability which characterized Quebec government operations from 1867 to 1874, created conditions in which there was a greater sense of security about making such commitments. Quebec treasurer, J.G. Robertson, made every effort to reassure the population that the government was adequately prepared to meet the costs of railway finance. He did not suggest that this operation could be carried out solely with ordinary income, but he nevertheless forecasted that the

⁴⁸ Ibid, 17 décembre, 1869, p. 135.

potential debt with which Quebecers might be faced would amount to below 10,000,000 dollars.⁴⁹

Reflecting on the pre-Confederation financial plight which arose out of railway operations, Robertson expressed his confidence that from a fiscal standpoint, history would not repeat itself. This, however, would not prove to be the case as within a very short period of time, following the government's intervention in the Q.M.O. & O. Railway venture, a substantial debt was amassed. In the early 1880's, when the railway was sold, Quebec had surpassed the 10,000,000 dollar estimated debt and was paying over 1,000,000 dollars in annual interest from its ordinary budget in order to repay its loans. The debt continued to rise despite the proceeds obtained from the sale of the railway, mainly as a result of continued borrowing, from the beginning of the 1880's, to finance annual deficits and meet railway commitments other than those associated with the Q.M.O & O Railway. In spite of repeated warnings by provincial administrators that it was critical to put a stop to the growth in debt, it continued to accumulate from the late 1880's through the mid-1890's. By the year 1897, the province's excess of liabilities over assets reached a total of nearly 25,000,000 dollars (see appendices VII-X).

It would appear that the pleas made by Quebec Conservatives

⁴⁹ Gazette, December 7, 1875, p. 2.

and Liberals to stem the debt increase were not accompanied by any long term coherent strategy to deal with what was widely considered a potentially grave financial crisis. Frequent borrowing characterized by the deferral of debt over periods ranging from 25 to 50 years constituted the approach adopted by Quebec provincial governments to confront their financial situation in the latter part of the nineteenth century (see appendix XI). As we shall observe, not until the end of the close of the century, when the economic recession subsided, did a provincial government in this case the Liberal administration of Félix-Gabriel Marchand, put a freeze both on railway payments and large scale borrowing for an extended period of time.

In his study "Le gouvernement du Québec et les milieux financiers de 1867 à 1920", Marc Vallières identifies two distinct periods which marked the overall financial evolution of Quebec. The first period, 1874-1883, was characterized by rapidly growing charges, primarily from the Q.M.O. & O. Railway which was accompanied by the emergence of a series of loans designed to cover the growth in debt. The second period, 1888-1897, is marked by a similar pattern of extensive borrowing but is significantly influenced according to Vallières by the broader financial difficulties of the period 1891-1897 which was highlighted by severe international

economic instability.⁵⁰

From 1874 to 1897, the government of Quebec contracted 10 loans ranging from a total of approximately 1,000,000 dollars to approximately 5,500,000 dollars (see appendix XI). When the government expressed its intention to acquire a loan, it frequently encountered the wrath of the provincial political opposition. When in opposition, both Conservatives and Liberals frequently urged that other means should be explored in an effort to raise capital. It should be noted that the majority of the loans were contracted by the provincial Conservatives who had held power through the greater part of the 1867-1896 period.

TABLE NO. 7-2
Summary of Quebec loans (rounded figures) and
political party by which they were contracted, 1874-1896

1874	3,900,000	Conservative
1876	4,200,000	Conservative
1878	3,000,000	Liberal
1880	4,300,000	Conservative
1882	3,500,000	Conservative
1888	3,500,000	Liberal-Nationalist
1894	2,900,000	Conservative
1894	5,300,000	Liberal-Nationalist (renewed by Conservative)
1896	2,700,000	Conservative
1897	1,400,000	Conservative
TOTAL	35,700,000	

SOURCE: Marc Vallières, "Le Gouvernement du Québec et les milieux financiers de 1867 à 1920", op. cit.

⁵⁰ Marc Vallières, "Le Gouvernement du Québec et les milieux financiers de 1867 à 1920", L'Actualité économique, vol. 59, no. 3, septembre 1983, p. 538.

When a loan was procured, provincial treasurers generally insisted that the amounts required were so large that regrettably, no other alternatives to borrowing were available. In effect, during the latter part of the nineteenth century Quebec was not, it seemed, in a financial situation where it could select amongst a range of options for the purposes of debt reduction. For example, massively increasing revenue or reducing expenditure did not appear to suffice. Clearly, in the midst of Quebec's financial predicament, these measures had to be adopted without excluding recourse to borrowing to meet both short and long term financial commitments.

(ii) Emergence of debt, 1874-1886

The costs associated with the Q.M.O. & O. Railway were the cause of the first two loans contracted by the provincial government in 1874 and 1876. Virtually no political opposition was encountered over these transactions. Marking Quebec's entry into financial markets in 1874, a 3,700,000 dollar loan was obtained from British sources linked to the Bank of Montreal, a financial institution which enjoyed a privileged relationship with the provincial government. In analyzing the 1874 loan, Marc Vallières concluded that: "L'émission paraît un succès relatif tenant compte de la nouveauté de l'emprunteur sur le marché: la valeur des

obligations grimpera par la suite régulièrement".⁵¹ Nearly two years later, the Quebec government required another loan to support the increased costs associated with the Q.M.O & O. Railway. In light of the pending transaction, Quebec treasurer, Levi Ruggles Church, made an effort to generate competition amongst potential lenders so as to obtain the best possible terms. He apparently did this in the hope that the Bank of Montreal would offer a satisfactory arrangement. The initiative, however, did not result in the desired end. The 1876 loan of slightly over 4,000,000 dollars was received at an attractive rate by a Montreal speculator, Edward Alexander Prentice. He, in turn, passed the transaction on to the Merchants Bank of Canada. The latter institution ultimately had trouble assuming the entire transaction and in 1877, the Bank of Montreal took responsibility for the balance of the loan.⁵²

In order to meet constantly rising railway obligations, Quebec often contracted temporary loans. In fact, such transactions were frequently made prior to what proved to be the need for larger long term loans. In 1877, treasurer L.R. Church obtained a 500,000 dollar loan at what was considered a reasonable rate of six percent. But as a result of difficulties on the European market, the interest rate rose to

⁵¹ Ibid.

⁵² Ibid., p. 539.

seven percent. Under these conditions, and given the rise in the floating debt, in 1878, the Bank of Montreal provided the Quebec government with a 3,000,000 dollar loan.⁵³ By 1878, the three loans which had been procured by Quebec totalled 10,758,440 dollars (see appendix X). When the provincial Conservatives returned to power in 1880, after one year of Liberal government, current financial commitments were estimated at about 5,000,000 dollars. These consisted of:

TABLE NO. 7-3
Financial commitments of the provincial Conservatives
in the year 1880

Due on sundry loans to banks.....	\$1,345,000
Obligations on railway account which have been adjusted, not included in the above.....	1,093,598
Subsidies to certain railway companies due as they progress.....	1,237,830
Estimated amount required to meet the Q.M.O. & O. Railway.....	1,290,000
TOTAL	<u>\$4,966,428</u>

SOURCE: Budget Speech of the Honourable J.G. Robertson, Treasurer of the Province in the Legislative Assembly of Quebec, June 16th, 1880, p. 32.

To meet these payments, a loan of 4,275,777 dollars was obtained from a French financial syndicate which included the participation of Quebec financiers. It was the first transaction in which the Quebec government looked to France

⁵³ Ibid.

for funds.⁵⁴

Beginning in the 1880's, further borrowing became the subject of intense controversy, as annual interest charges continued to rise and there was little reason to believe that railway costs could be reduced. There was an acknowledgement that major reductions in spending were necessary to deal with the growth of the debt. Quebec treasurer J.G. Robertson was pressured by certain officials who claimed that the province was in a dangerous financial situation. The treasurer recognized that it was essential to protect the public credit by finding an alternative to borrowing. In his 1880 budget speech, Robertson pointed out that:

The very fact of authorizing loans to be made implies providing means to repay these loans, and, ...unless I felt assured that our revenue would allow of our carrying on the public affairs of the country, and provide for interest and sinking fund without bearing too heavily on our people, I would be no party to negotiating further loans for even valuable public works.⁵⁵

The provincial Liberal opposition directed numerous attacks on J.G. Robertson whom they accused of being responsible for Quebec's financial predicament. Indeed on numerous occasions, the opposition went so far as to accuse Robertson of bringing Quebec to the brink of financial ruin. In 1880, an opposition

⁵⁴ See Magella Quinn, "Les capitaux français et le Québec, 1855-1900", Revue d'histoire de l'amérique française, vol. 24, no. 4 (mars 1971), pp. 527-566.

⁵⁵ Budget Speech of the Honourable J.G. Robertson, in the Legislative Assembly of Quebec, June 16, 1880, p. 34.

spokesman charged that:

En 1874, au moment même où la crise commerciale et financière terrible dont nous souffrons encore venait d'éclater à nos portes, et conseillait la plus grande prudence à l'homme le moins prévoyant, il inaugurerait la politique du chemin de fer, qui a chargé la province d'une dette déjà encourue ou inévitable de quinze millions de piastres.⁵⁶

In the early 1880's, it was felt that the sale of the Q.M.O. & O. Railway was perhaps, the best way to liquidate a portion of the existing debt and curb any further increases in liabilities. The provincial Conservatives proceeded therefore to seek a buyer for the Railway. Indeed, it was widely believed that no other alternative existed to the sale of the railway.

Early in 1882, as noted in Chapter 5, the Quebec government sold the Q.M.O. & O. Railway to the Canadian Pacific Railway company for a net sum of 7,600,000 dollars. The amount was specially appropriated towards the redemption of the loans of 1876 and 1878 and for approximately 540,000 dollars of the 1874 loan. The payments were to be made over a period of years following the conditions of each loan. The legislation describing the terms of sale indicated that:

The Treasurer of the Province is prohibited from employing, even temporarily, the money arising from the price of the sale of the Quebec, Montreal, Ottawa and Occidental Railway, and the interest to be derived therefrom for any other purpose than

⁵⁶ See Speech of Mr. François Langelier in DALQ, 1880, p. 525.

that above enacted.⁵⁷

In short, the sum of 7,600,000 dollars would redeem a like proportion of the consolidated debt when it came due and in the interim it would provide interest of approximately 380,000 dollars per annum to reduce the debt service charges. It was therefore no longer deemed necessary to maintain a sinking fund for that portion of the debt.⁵⁸

Some argued that it might have been preferable to sell the railway for cash rather than applying the monies to the loans in the way this was done by the Quebec Conservative government. It was explained that:

...si nous avons l'argent en mains, nous ne pourrions pas payer une partie de notre dette, attendu que les bons de la province sont au dessus du pair, et, seraient vendu à prime s'il était connu que le gouvernement est désireux de racheter ses propres débentures...⁵⁹

A concern was also expressed that if the government were to receive the cash, it might be lured into investing it in new projects rather than liquidating existing debts.

⁵⁷ "An Act appropriating the price of the Quebec, Montreal, Ottawa and Occidental Railway to the payment of the consolidated debt of the province" [assented to 27th May, 1882], in Statutes of Quebec, 45 Vic., Cap. 21, 1882, p. 5.

⁵⁸ Budget Speech of the Honourable Mr. Wurtele, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, 15 May, 1882, p. 12.

⁵⁹ See Discours sur le budget prononcé le 28 mai 1881, par l'Honorable J.G. Robertson, Trésorier de la province in DALQ, 28 mai 1881, p. 662.

Despite the sale of the Q.M.O. & O. Railway, it was clear that the Quebec government would be obliged to procure funds in order to meet pending financial obligations. Prior to fiscal year 1882, the provincial government promised that with the sale of the Railway, it would be unnecessary to contract a new loan. In that year, however, it became clear that recurring annual deficits on ordinary operations combined with current railway commitments, unrelated to the Q.M.O. & O. Railway, created a floating debt of over 1,000,000 dollars. With further railway obligations coming due, the treasurer, J.G. Wurtele, predicted that nearly 3,000,000 dollars would be required to cover accumulated debts.⁶⁰

A number of small temporary loans had been contracted in the early 1880's to deal with the province's financial commitments. The government believed, however, that it was necessary to procure a large sum of money to cover the debt which was accumulated. Treasurer J.G. Wurtele maintained that the sum required was too great to be dealt with solely through recourse to direct taxation. Under these circumstances, Wurtele felt that the only alternative was a loan. In view of the government's promise not to pursue such a course, Wurtele declared that:

The Government had promised the public that it will

⁶⁰ Budget Speech of Honourable Mr. Wurtele, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, 15th May, 1882, pp. 6-7.

effect no more loans for new works or new requirements, and it keeps its word. The power which the Government asks to issue bonds or debentures, will not have the effect of creating a new debt. It will in no wise [sic] increase our present indebtedness: it will simply be the conversion of a floating debt, which is always more burdensome than a funded one.⁶¹

Wurtele believed that the issuing of debentures would constitute a safe investment to those persons with capital to contribute and would help retain large sums within the province that would have otherwise gone elsewhere. The treasurer contended that: "There is sufficient capital in the Province to enable us to place this loan upon our own market".⁶² According to Wurtele, those individuals who held the debentures would have a vested interest in the sound administration of the business of the province. The government intended to issue bonds or debentures which it would have the right to redeem at any time, after the expiration of thirty years. The Quebec treasurer referred to the procurement of the 3,000,000 dollars in this manner, as similar to the creation of a constituted rent. Under these conditions, the government hoped to take advantage at some point in the future of a better economic climate to redeem the obligations.⁶³

⁶¹ Ibid, p. 7.

⁶² Ibid, p. 8.

⁶³ Ibid, p. 9.

Wurtele maintained that this operation would not result in any increase in the overall debt of the province as the transaction merely involved the transfer of existing short term obligations into long term debentures. He noted that as Quebec failed to generate a surplus on its ordinary revenue, all future financial commitments made by the province would simply add to the provincial debt. With regard to the transaction, Wurtele concluded that:

...it is only converting a floating debt into a consolidated debt, without any increase in the amount of the annual interest. I say converting a floating debt for, as our revenue is insufficient, every payment on account of railway subsidies or existing claims, increases the floating debt by so much.⁶⁴

In July 1882, Wurtele issued the first million dollars of bonds which were largely purchased by local businessmen and politicians. The French-Canadian financier, Louis Forget, bought the majority of the issue and even as he experienced difficulty in meeting the obligations, he tried to assume responsibility for the entire sum connected with the government transaction by obtaining a contract in this regard. Forget was unable to obtain a sufficient number of local buyers to absorb such a transaction. Along with Louis-Adélard Sénécal, another important financier, he attempted without success to find buyers for the bonds in France. Eventually, the balance of the transaction, approximately 2,500,000 dollars, was assumed in England in the form of a loan by a

⁶⁴ Ibid, p. 10.

group of businessmen supported by the Bank of Montreal.⁶⁵ In light of this experience, during his 1883 budget speech, Wurtele declared that:

Owing to the present state of the money market in this country and the want of capital which is now felt by the commercial and industrial classes, and even amongst our agricultural population, it might be desirable that the Government should be authorized to float its future issues of the loan on the European market.⁶⁶

In the December 1883 statement on assets and liabilities, there was a surplus of liabilities which amounted to approximately 11,000,000 dollars (see appendix VII). Rather than focusing on liquidating the balance of the debt, the provincial Conservatives directed their immediate attention to preventing further ordinary annual deficits. Meanwhile, in the early 1880's, the provincial Liberal opposition criticized the government for its method of dealing with the remaining debt that was accumulated through borrowing. Without any scheme to amortize the obligations which the province had amassed, financial problems were likely to increase. The opposition contended that to operate without amortization of the loans was fraught with risk.

In his 1882 budget speech, treasurer J.G. Wurtele cited two reasons in arguing against the creation of a sinking fund for

⁶⁵ Vallières, op. cit., p. 542.

⁶⁶ Budget Speech of Honourable Mr. Wurtele, Treasurer of the Province, in the Legislative Assembly of Quebec, 16th February, 1883, p. 10.

re-payment of the debt. First, he noted that the annual budget was already charged with the payment of approximately 70,000 dollars towards the amortization of the balance of the province's consolidated debt. The second reason was that the establishment of a sinking fund was, in Wurtele's opinion, "an economical and financial illusion", unless it was accompanied by a surplus in the receipts. Citing French financial expert, Paul Leroy-Beaulieu, Wurtele pointed out that: "Unless there be such a surplus, the funds absorbed cause a deficit in the budget, which is met by an increase in the floating debt and afterwards by an increase in the funded debt".⁶⁷

Similar views were expressed by J.G. Robertson who maintained that without the annual allocation to meet the commitments arising from the sinking fund, not only was the objective lost, but the eventual cost would likely be more than anticipated. Robertson concluded that:

Si l'intérêt n'est pas ainsi accumulé, s'il est au contraire employé à un autre objet, il s'en suit que le capital de la dette n'est pas reconstitué à la date convenue, il présente au contraire un déficit considérable et, conséquemment, le but est manqué.⁶⁸

But the Liberal opposition maintained that the position of the Conservatives contradicted sound economic principles. During

⁶⁷ Budget Speech of the Honourable Mr. Wurtele, Treasurer of the Province, in the Legislative Assembly of Quebec, 15th May, 1882, pp. 9-10.

⁶⁸ DALQ, 1884, p. 1421.

the mid-1880's, the Liberals argued that had an amortization fund been established a decade earlier, the financial situation in which the province found itself might not appear so insurmountable. Still, opposition spokesmen admitted that it was difficult to put such an operation into place given the imbalance between ordinary revenues and expenditures. It was suggested that:

...il faudrait un réajustement radical du budget qui entraînerait une perturbation temporaire dans toutes les branches du service public...

Une nation a le devoir de ne pas rejeter sur l'avenir les sacrifices qui incombent au présent. Nous ignorons, d'ailleurs, ce que l'avenir nous réserve.⁶⁹

From 1883 to 1888, while no major loan was contracted by the Quebec government, the floating debt mounted as a result of continued annual deficits on ordinary operations. Conditions were not viewed as ripe, from either a fiscal or political standpoint for the Quebec government to rely on yet another loan to meet its obligations. The Conservatives did, however, obtain a number of temporary loans to meet certain expenditures, particularly railway commitments. In 1884, former Conservative Premier J.A. Chapleau concluded that:

...il est impossible au gouvernement de contracter un nouvel emprunt dans les circonstances actuelles sans nuire gravement au crédit de la province. D'un autre côté, nous avons promis au corps électoral que nous n'imposerions pas de charges sur

⁶⁹ See Speech of Mr. Adélard Turgeon of Bellechasse riding in Jocelyn St-Pierre edit., 6 décembre, 1894, in DALQ, 1894-95, p. 102.

la prospérité.⁷⁰

This period was characterized by intense activity on the part of the Quebec government aimed at obtaining new sources of revenue from either the federal authorities or through the implementation of new taxes. During the mid-1880's, provincial administrators maintained they had only limited ability to cover the charges associated with new loans. The opposition enjoyed reminding the Conservatives of the statement made at the time of the sale of the Railway by J.A. Chapleau. The Conservative spokesman remarked that: "On me dira peut-être: empruntez, empruntez. Sur quoi emprunterons-nous?...Il n'y a pas de fausse honte à le dire, à moins d'aliéner le domaine public ou d'avoir recours à la taxe directe, nous n'avons pas de quoi payer".⁷¹

From 1883 to 1888, there was only a limited increase in the excess of Quebec's liabilities over assets. While the floating debt did increase somewhat, it was offset on the balance sheet by the inclusion of a 2,394,000 dollar asset granted by the federal government in consideration of the contribution to national railway development brought by Quebec's investment in the Q.M.O. & O Railway. These funds were targeted at the further redemption of the 1874, 1876 and

⁷⁰ See reference to Chapleau's remarks in DALQ, 6 mai 1884, p. 973.

⁷¹ Ibid.

1878 loans.⁷² Therefore, the monies could not be applied to meet the temporary loans which had been contracted by the Conservative and Liberal administrations. By June 30th, 1888, while the funded debt increased by about 3,000,000 dollars from 1883, the excess of liabilities over assets increased by less than 500,000 dollars (see appendices VII and VIII).

Comparisons between the overall financial positions of Ontario and Quebec intensified throughout the 1880's. Unlike its eastern neighbour, Ontario had neither a funded nor a floating debt. We noted earlier that the Ontario Conservative political opposition continually challenged the Mowat administration's presentation of the excess of assets over liabilities. For their part, the Quebec provincial Conservatives often attempted to question the validity of comparisons between the two provinces overall financial position.

During the mid-1880's, Quebec treasurer J.G. Robertson suggested that if he employed the same system of classifying assets as did his neighbour, the difference between the two provinces' financial position would be much less important than what was being presented. Similar to the Ontario

⁷² "An Act appropriating to the payment of the consolidated debt of the Province the grant made by the government of the Dominion of Canada...", in Statutes of Quebec, 49 Vict., Cap. 2, 1886, p. 19.

political opposition, Robertson claimed that the province's surplus was based solely on Dominion bonds and therefore not as legitimate than the cash asset surpluses presented by the Conservative Sanfield Macdonald administration. For example, Robertson contended that if Quebec included amongst its assets, the settlement with the Dominion from the excess debt (2,549,000 dollars), the estimated value of its share of the Common School Fund (1,058,000 dollars) and the estimated sum owed to it from the Municipal Loan Fund (1,500,000 dollars), the province's overall debt of approximately 11,000,000 dollars would be reduced by about half the declared amount.⁷³

Although Robertson's argument could not be easily dismissed, it was not without certain flaws. On the one hand, the estimate of Quebec's share from the Common School Fund was in dispute and it was generally acknowledged that the majority of municipalities owing the province from the Municipal Loan Fund were without means to reimburse the government. It was true that Quebec did not include the 1884 settlement from the excess debt in its balance sheet as did the province of Ontario. Overall however the difference between the two provinces financial situations was very substantial.

(iii) The escalating debt, 1887-1896

Despite the efforts to curtail expenditure, the hope for debt

⁷³ DALQ, 1886, pp. 1060-1061.

reduction expressed by the Quebec Conservatives seemed to fade by the late 1880's. By 1887, the need for a large permanent loan arose to meet the cost of certain public works and the annual deficits accumulated over the previous years. In January of that year, Liberal Nationalist Premier Honoré Mercier assumed office. While he was not elected primarily because of his fiscal platform, in the late 1880's, Premier Mercier was not insensitive to the financial situation of the province. The Mercier administration treasurer, Joseph Shehyn, suggested that his Conservative predecessors, and in particular J.G. Robertson, has "disguised the abyss" into which the province had been placed and had made an effort to convince the population that the financial situation had been stabilized when in fact, large sums were being added to the liabilities. It was in this way, Shehyn claimed, that Robertson succeeded in "...burdening us with the enormous floating debt from which we can only now relieve ourselves by a permanent loan of several millions".⁷⁴

From the time he took office, Shehyn faced important obstacles in attempting to borrow funds. The Conservative opposition, led by L.O. Taillon, suggested that the Mercier administration should hold off on any new loan. Taillon felt it was first appropriate to see whether efforts made to obtain additional

⁷⁴ Budget Speech delivered by the Honourable Joseph Shehyn, Treasurer of the Province, in the Legislative Assembly of Quebec, 12th April, 1887, pp. 18-19.

revenue (i.e. through either legal settlement of the issue of direct taxation and the negotiations over the Dominion subsidy), would be realized. Until such time, he argued that temporary loans could suffice and that the province was bound by statute to continue short term borrowing. Mercier dismissed Taillon's proposal which he stated was not in conformity with the law.⁷⁵ Recourse to temporary loans, according to Mercier, was available in the case of a deficit which was not foreseen, that is a deficit in annual operations. In effect, such borrowing was permitted when ordinary expenditure exceeded revenue. Taillon referred to an 1868 statute stipulating that:

The lieutenant-governor in Council may also from time to time, in case of exigency arising out of the failure of revenue from unforeseen causes, direct the Treasurer to effect any needed temporary loans chargeable on the consolidated revenue fund in such manner and from, in such amounts payable at such periods, and bearing such rates of interest not exceeding six percent per annum as the lieutenant-government in Council may authorize; but such loans shall not exceed the amount of the deficiencies in the ...consolidated revenue fund to meet the charges placed thereon by law, and shall not be applied to any other purposes whatever.⁷⁶

For treasurer Joseph Shehyn, the loan was necessary "...to do honour to our engagements entered into before we came in power and against a part of which we vigorously protested when we

⁷⁵ DALQ, 16 mai 1887, p. 1148 and p. 1153.

⁷⁶ Ibid, pp. 1153-1154 and see "An Act respecting the Treasurer Department and the public revenue, expenditure and accounts" in Statutes of Quebec, [Assented to 24th February, 1868], 31 Victoria, Cap. 9, 1868, p. 31.

were in opposition".⁷⁷ By the late 1880's, a floating debt of nearly 4,000,000 dollars had been accumulated and it was felt that it was becoming imminent to identify a more permanent arrangement with regard to treating this sum.

The Mercier administration faced a further obstacle in attempting to contract a loan from a source other than the Bank of Montreal. In July 1887, Mercier and Shehyn decided the administration would invite competing offers from financial institutions for the pending transaction. This initiative met with substantial opposition from the Bank of Montreal and its allies which had generally taken charge of Quebec government borrowing. The Quebec government received several interesting submissions and in January, 1888, eventually accepted a proposal from Credit Lyonnais for a 3,500,000 dollar loan at an interest rate of four per cent.⁷⁸ This constituted the lowest rate of interest it had obtained from any financial institution relative to all prior transactions. Shehyn expressed great satisfaction in his ability to procure a lower interest rate than his predecessors.⁷⁹ Nonetheless, the Conservative opposition

⁷⁷ Budget Speech delivered by the Honourable Joseph Shehyn, Treasurer of the Province, in the Legislative Assembly of Quebec, 12th April, 1887, p. 48.

⁷⁸ DALQ, 21 juin 1888, p. 1117.

⁷⁹ Budget Speech of the Honourable Joseph Shehyn, Treasurer of the Province, in the Legislative Assembly of Quebec, June 15th, 1888, p. 22.

believed that no comparison should be made between Shehyn's transaction and previous loans. Loans could not reasonably be contrasted, according to the opposition, because they were obtained under different economic and political circumstances. Indeed, it was concluded that the policy of restraint of the Conservatives ultimately enabled the Mercier administration to negotiate favourable terms with the Credit Lyonnais.⁸⁰

Following the transaction, a confrontation broke out between the Bank of Montreal and the Quebec government as the financial institution perceived a major threat to its standing. The relationship was aggravated when, in that same year, the Mercier administration pursued the possibility of converting the entire public debt into a single loan by purchasing the previous loans and obtaining a better interest rate on the new transaction. According to Joseph Shehyn the purpose of the measure was to obtain a considerable savings in the interest service on the public debt. The government did not consider local institutions in the process of looking for financiers. The treasurer pointed out that conditions for such a transaction were favourable as capital in Europe was cheap and abundant.⁸¹

⁸⁰ DALQ, 21 juin 1888,, p. 1131.

⁸¹ For a summary of the dispute between the government and the Bank of Montreal, see Budget Speech of the Honourable Joseph Shehyn, Treasurer of the Province, in the Legislative Assembly of Quebec, on the 15th February, 1889, p. 29.

In July 1888, legislation was adopted which would enable the Mercier administration to proceed with the conversion of its debt. The legislation referred to the favourable condition of the money market and the savings through proper conversion possibly enabling the government to still further aid "Public Instruction, Agriculture and Colonization" as the principal reasons for the Act. The law submitted by the government proposed that:

It shall be lawful for the Lieutenant-Governor in Council to authorize the Provincial Treasurer to raise, by loan upon the credit of the Province, a sum not exceeding the whole amount of the present debt of the Province and, for that purpose, to issue a sufficient amount of new debentures, bearing an annual rate of interest not exceeding four per cent, and to dispose thereof upon the conditions which he deems the most favourable.⁸²

Treasurer Shehyn pointed that debt conversion was not exceptional and indeed France, England and the United States had adopted such a measure. In the year 1888, Quebec enacted legislation to provide for a possible conversion of the province's funded debt.⁸³ The Bank of Montreal was quite concerned by the potential loss of its position with the Quebec government in the event of a conversion which was rumoured to involve the Credit Lyonnais.

⁸² "An Act respecting the redemption of Provincial Debentures and the conversion of the debt" in Statutes of Quebec, [Assented to July 12th, 1888], 51-52 Victoria, Cap. 9, 1888, pp. 30-31.

⁸³ DALQ, 9 juillet 1888, p. 1639.

The view that the Mercier administration was attempting a "coercive conversion" enabled the Bank of Montreal with the help of British capitalists and the assistance of the federal and provincial Conservative governments to thwart the initiative. Shehyn was extremely disappointed at the failure of the first effort at conversion of the public debt. He attributed the collapse of the project to "...the prejudices only too successfully raised against the measure and steps taken to turn money market against us...". He alleged that the political opposition had launched a violent attack motivated by partisan aims directed at alarming the bondholders as to the intentions of the government. He added that the opposition was indifferent to the injury they caused to the province's credit on overseas markets.⁸⁴ As a result of this agitation, the Mercier administration chose to abandon the initiative until the reemergence of a more opportune period.

On the 30th of December, 1890, the Mercier administration enacted legislation which would enable the province to borrow up to 10,000,000 dollars in order to settle current and future obligations. The government estimated that nearly 6,000,000 dollars were required almost immediately to cover previous commitments made to railways, while yet another sum of over

⁸⁴ Budget Speech of the Honourable Joseph Shehyn, Treasurer of the Province, in the Legislative Assembly of Quebec, 15th February, 1889, pp. 29-30.

4,000,000 dollars would be needed mainly to meet projected costs for railways in the upcoming years. The Mercier administration also identified a number of proposed public works, in particular the construction of courts, prisons and asylums, which required the province to obtain additional funds. Rather than procuring one large loan, the legislation permitted periodic borrowing or the issuance of debentures as it might be deemed necessary.⁸⁵

The Mercier government immediately proceeded to begin negotiations over a new loan. Following the failure of the conversion scheme, it appeared as though the government looked less than favourably upon the Bank of Montreal. Consequently, when in 1891, the administration checked into the possibility of acquiring another loan, it again went to the Credit Lyonnais. Given the difficult conditions on the international market, effecting a long-term transaction at that time seemed improbable. Under these circumstances, temporary loans were acquired until the market permitted borrowing at rates which would not substantially increase the province's debt burden beyond what was deemed appropriate. Reflecting on the fiscal decisions taken in 1891, treasurer Joseph Shehyn claimed that:

...au lieu d'emprunter 10 millions, chose que nous aurions pu faire facilement en acceptant les offres

⁸⁵ "An Act respecting the issue of Provincial Debentures to provide for the payment of the non-consolidated debt and for other purposes" in Statutes of Quebec, [Assented to 30th December, 1890], 54 Vict., Cap. 2, 1890, p. 27.

qui nous étaient soumises, nous nous sommes limités à un emprunt temporaire, même au prix d'un léger sacrifice, préférant payer temporairement quelques milliers de piastres de plus, plutôt que de faire perdre à la province le bénéfice de plusieurs millions par un emprunt placé dans un temps inopportun et sur un marché défavorable.⁸⁶

The Mercier administration made continued borrowing a strong possibility for the Conservatives upon the latter's return to power in 1891 under L.O. Taillon. Like previous governments, upon entering office, the Conservatives vowed to restore order to the province's finances. They maintained that by practising strict economy, they would be able to reduce the debt. Stated simply, the goal of the Conservatives was as follows:

...rétablir l'équilibre dans notre budget, rétablir la confiance dans notre crédit, enfin faire reprendre à la province de Québec, sa place au premier rang parmi les provinces de la puissance du Canada.⁸⁷

The Conservative administration treasurer John Smythe Hall wished, if at all possible, to avoid contracting further loans. As noted in chapter 3, in order to do this, he implemented a series of direct taxes, which he suggested would balance the annual budget and curb further growth in the provincial debt. Despite such measures, the need to renew temporary loans and to continue borrowing still persisted. In its final year, the Mercier administration had increased the

⁸⁶ See Speech of A.F. Savaria, in Jocelyn St-Pierre edit. DALQ, 2 janvier, 1895, session de 1894-1895, p. 256.

⁸⁷ Ibid, p. 266.

debt to nearly 28,000,000 dollars, against assets of approximately 11,500,000 dollars leaving a negative balance of about 16,500,000 dollars (see appendix IX). Premier Taillon and treasurer John Smythe Hall charged the Mercier administration with increasing the funded debt by about 10,000,000 dollars. This figure was based upon the loans contracted during the period, which included the 1888 loan of 3,500,000 dollars and the 1891 loan amounting to nearly 4,500,000 dollars which the Taillon administration converted into a larger permanent loan in December of 1894 (see appendix XI). In blaming their opponents for the entire increase, Taillon and Hall went as far as to assign the Liberals with responsibility for the accumulation of earlier Conservative administrations. Hall summarized "the legacy left to the province" by the Mercier administration as follows:

There will be a floating debt on the first July, 1892...of \$3,302,906,71 of cash required up to that date and for Railway Guarantee Deposits and Temporary Loans, and, in addition, at least \$5,231,071.89 for obligations, which we may be called upon to fulfil.⁸⁸

When the Conservatives took power, it was clear that treasurer Hall favoured a fiscal relationship between the Quebec government and the British market via the Bank of Montreal. From the beginning of the Conservative administration, Hall seemed determined to disrupt the relations between the French

⁸⁸ Budget Speech delivered by Honourable John S. Hall, Treasurer of the Province, in the Legislative Assembly of Quebec, May 20th, 1892, p. 29.

financial market and the provincial administration. This conflict came to a head in 1893, over the issue of renewing the medium term loan of 1891 which was previously contracted under the Mercier administration.⁸⁹

At the very outset of the negotiations over a new loan, Hall visited France to explore the possibilities of borrowing. But shortly thereafter, he directed his attention to the British market and seemed determined to find ways to repay the French authorities for the earlier transaction. Nonetheless, in 1893, Hall proved unable to negotiate a new loan prior to term and this obliged Premier L.O. Taillon to intervene by renewing the 1891 loan with the French authorities for a period of two years at what was considered a rather unfavourable rate. This decision on the part of the Premier caused irreversible damage to the relationship between Hall and Taillon.

Reminding the Legislative Assembly of the disastrous financial situation Hall faced when he first entered office, the treasurer maintained that in 1893, there was significant hostility in Europe to the province of Quebec whose financial reputation was less than adequate. Hall felt that under the circumstances, the Bank of Montreal should be approached to service Quebec's fiscal needs. He concluded that:

C'est grâce au secours des institutions financières

⁸⁹ Vallières, op. cit., p. 544.

locales que nous pûmes inverser la crise. Comme marque de reconnaissance, je résolus de leur donner la chance de faire une opération avec nous lorsque nous ferions un emprunt permanent.⁹⁰

When Hall was obliged to contract a temporary loan at the beginning of 1894, he attempted to do so through a financial house in London. In the spring of that year, however, Hall was struck by illness and in his absence, Premier Taillon assumed the position of treasurer. Once more, he pursued negotiations with a view to obtaining a large permanent loan. Towards the end of the year, Taillon was successful in obtaining a 4,000,000 dollar loan at a 3 per cent rate of interest (see appendix XI).

Recovering from his illness, Hall protested that Taillon had chosen the French financiers over the local institutions in the procurement of a permanent loan. In light of Taillon's action in this matter, Hall claimed that he had no choice but to submit his resignation as provincial treasurer. The resignation was in no small measure a result of a fundamental difference in the perspective on Quebec's financial situation which emerged between treasurer Hall and Premier Taillon. In his letter of resignation, Hall outlined the main factors distinguishing his view on the evolving financial situation from that of the Premier. He maintained that if the province did indeed require a loan it should have submitted it for

⁹⁰ See Speech of J.S. Hall in Jocelyn St. Pierre, edit., DAI.Q, 4 décembre 1894, session of 1894-1895, p. 78.

competition in order to obtain the most favourable rate. He added that by going to French financial institutions, the treasurer appeared to have broken his pledge that local institutions would be given the first opportunity to bid on a new loan.⁹¹

Another major difference between Taillon and Hall, was the latter's conviction that it was unnecessary to procure a large permanent loan to meet the province's pending obligations. Hall believed that the debt could be reduced if the province immediately converted its principal assets into cash: (1) the 7,000,000 dollars it was guaranteed from Canada Pacific upon the sale of the Quebec, Montreal, Ottawa and Occidental Railway, (2) the 2,394,000 dollars provided by the federal government in 1884 as further compensation for the Quebec government's railway investment and (3) the 2,549,000 dollars provided in connection with the settlement from the excess debt. With the exception of the latter item, the funds to which Hall made reference were originally destined by statute to cover the loans of 1874, 1876 and 1878. Hall referred to the "Act respecting the Public Debt" assented to in January 1894 and designed to create the possibility that the balance of these funds be employed for the redemption or conversion of the Public Debt. In addition, the Act provided that any sums

⁹¹ "Correspondence Hall-Taillon" in Documents de la Session, 58 Victoria, No. 15, 1895, pp. 3-6.

of money received in connection with the arbitration between the Dominion of Canada and the provinces of Quebec and Ontario be applied to the redemption of the Public debt. Hall concluded that:

These sums should be appropriated to the reduction of our public debt generally and to the conversion of the province's 5% bonds, thus reducing our annual interest charges so as to compensate the province for the loss of interest on the sums to be paid in...⁹²

In his reply to Hall, Premier Taillon reminded the ex-treasurer of his failed efforts in 1893 to negotiate a loan on the European market. Taillon asked the following question: "Pourquoi aurions-nous passé des heures et des heures à discuter sur un emprunt qui ne devait pas se faire?"⁹³ Taillon was not at all certain that the funds associated with the sale of the Q.M.O. & O. Railway could be employed, despite the 1894 Act, for any purpose other than for the eventual repayment of the loans contracted during the 1870's. Taillon recognized that certain observers might disagree with his assessment involving the deployment of these funds, so he identified another reason for not choosing this approach. By acting in such a manner, Taillon contended that the administration would potentially be jeopardizing the credit

⁹² Ibid, p. 12.

⁹³ Ibid, p. 14. and "An Act respecting the Public Debt" in Quebec Sessional Papers, [Assented to 8th January, 1894], 57 Victoria, Cap. 2, p. 16.

and the honour of the province. The Premier suggested that the application of the funds without complete approval of the original creditors could be perceived as dishonest. He concluded that:

Ce que vous proposez, serait peut-être justifiable si la province n'avait pas d'autres moyens de faire face à ses engagements, ou s'il lui fallait, pour emprunter, se soumettre à des conditions tellement humiliantes qu'elles nuiraient à son crédit.⁹⁴

As to the issue of inviting competition or tenders for the large permanent loan, Taillon was astonished at what he claimed to be the first time he had heard this suggestion emanating from the treasurer. The Premier did not agree that the province was strong enough from a fiscal standpoint to submit its overall financial position to all creditors with a view to obtaining an interesting offer. He pointed out that when the 1893 loan was negotiated, there was general agreement that the money market was so unfavourably disposed to Quebec that it would be ill-advised to call for submissions. This, Taillon maintained, was the principal reason that his treasurer did not previously make such a recommendation.⁹⁵

In light of the conflict between Hall and Taillon, the ex-treasurer supported a motion proposed by the Liberal opposition in the Assembly which stipulated the following:

1. Que le gouvernement n'a pas agi au mieux des

⁹⁴ Ibid, p. 13.

⁹⁵ Ibid, p. 15.

intérêts de la province ni fait le meilleur arrangement possible.

2. Que les dettes de la province arrivant à échéance auraient pu être réglées sans avoir recours à un emprunt permanent.

3. Qu'il n'était ni à l'avantage ni à l'intérêt de la province d'émettre des obligations de trois pour cent à un prix comportant un escompte aussi élevé que 7%.

4. Que même, si l'on avait dû avoir recours à un emprunt permanent, il aurait dû être offert par soumissions, de manière à obtenir les meilleurs prix et avantages pour la province...⁹⁶

To the dismay of the Liberals and treasurer Hall, the motion was defeated by the Conservative majority and the government proceeded to explore further transactions. Premier Taillon and the provincial Conservatives proved able, at least in the short term, to withstand the attack both by Hall and the Liberal political opposition.

In December 1895, the Conservatives passed legislation which determined the amount that remained to be borrowed from the 10,000,000 dollars authorized by the Mercier administration by the Act of 1890. The two loans included in the calculation were the renewed temporary loan of 1893 for 3,860,000 dollars and the March 1894 loan of 2,920,000 dollars. The Conservatives did not consider the additional sum of approximately 1,500,000 dollars that was added to the 1893

⁹⁶ Jocelyn St. Pierre, edit., 29 novembre 1894, in DALQ, 1894-1895, p. 47. For Speech of J.S. Hall, see 30 novembre 1894, p. 77, of the same edition.

transaction as the latter was converted into a permanent loan through the issuing of debentures (see appendix XI). Just prior to the beginning of 1896, the Quebec government declared that the province had the power to borrow 3,220,000 dollars.⁹⁷ They proceeded to obtain funds nearly equivalent to that sum.

When they were in opposition the provincial Conservatives had strongly objected to the Mercier administration's attempt at converting the province's debt. Clearly, however, the objective of such a transaction was not lost upon the Conservative administration. During their term, both Hall and Taillon seriously considered the possibility under what they considered to be the "changed" circumstances of the 1890's. Indeed, in the January 1894 act respecting the Public Debt, provision was made for conversion through the issuance by the Lieutenant-Governor-in-Council of "Province of Quebec Inscribed Stock".⁹⁸ Following their successful negotiations with the Taillon administration regarding the permanent loan, the French financial authorities offered to convert the province's outstanding loans at a 3% rate of interest. As Taillon believed the French authorities had made sufficient

⁹⁷ "An Act to declare and determine the amount which may be borrowed under the act 54 Victoria, Chapter 2", in Quebec Sessional Papers, 59 Victoria, Chapter 2, 1895, p. 20.

⁹⁸ "Act respecting the Public Debt" [Assented to 8th January, 1894] in Statutes of Quebec, 57 Vict., Cap. 2, 1894, p. 19.

profit with the Quebec government, the Premier somewhat ironically re-established the link with the Bank of Montreal and the British market. In May 1896, only weeks prior stepping down as Premier, Taillon officially renewed the relationship with the Bank of Montreal by contracting a loan for slightly over 3,000,000 dollars. With federal and provincial elections imminent, these steps may have been designed to sway the English electorate in Quebec. In the following year, the new Conservative treasurer, A.W. Atwater, negotiated another loan of approximately 1,360,000 dollars with the Bank of Montreal.⁹⁹

The possibility of an important transaction between the provincial Conservatives and the Bank of Montreal emerged with the attainment of the project of debt conversion. In January 1897, the provincial Conservative administration passed an "Act respecting the Public Debt and its Conversion". Reminiscent of the 1888 Liberal legislation, the preamble of the Act stated that:

Whereas the outstanding funded debt of the Province of Quebec amount, at the present time, to \$32,281,894.34, which is made up of a number of loans bearing different rates of interest and maturing at different dates;

Whereas it is in the interest of the Province that these loans should be considered as far as practicable into one debt, bearing a uniform rate

⁹⁹ Vallières, op. cit., p. 545.

of interest and maturing at a certain fixed date.¹⁰⁰

In order to effect this conversion, the Act proposed the establishment of a sinking fund which would consist of the funds associated with the sale of the Q.M.O. & O. Railway to be released from the appropriation for the three loans of 1874, 1876 and 1878.

In 1897, under the Conservative administration, the Bank of Montreal obtained a contract for the conversion of the debt without a submission and with no compensation. This contract permitted the Bank of Montreal to purchase all outstanding loans over a two year period that ranged from 4 to 5% interest for conversion into one 5% loan. As the Bank of Montreal embarked upon the process of conversion, the Conservatives were defeated in the 1897 election and replaced by the provincial Liberals led by Félix-Gabriel Marchand.

Upon entering office, Premier Marchand attempted unsuccessfully to obstruct the conversion process irrespective of the contractual arrangement established by the previous government. In view of the proximate maturity of the 1874, 1876 and 1878 loans, the Liberals were of the opinion that the redemption was not useful as the conversion into securities

¹⁰⁰ "An Act respecting the Public Debt and its Conversion", Statutes of Quebec [Assented to 9th January, 1897], 60 Victoria, Cap. 2, 1897, p. 20.

maturing in 38 years necessitated the reinvestment of the sinking funds.¹⁰¹ By the turn of the century, much of the transaction was completed and approximately 7,570,000 dollars had been converted. Nonetheless, the Bank of Montreal through its role in the conversion, proved unable to substantially profit from its return to predominance over Quebec government borrowing.

It was clear that despite the valiant efforts of the Conservative administration to curtail annual deficits and curb the growth of debt, by 1897, the funded debt had still further increased from the period when Taillon entered office. The provincial Liberals maintained that Hall failed to fulfil his 1892 pledge regarding the debt and Félix-Gabriel Marchand vowed that he would succeed where the Conservatives did not. Under the Marchand administration, one of the main suggestions for preventing the growth of debt was implemented at the very outset of the Liberal Premier's mandate. From 1897 to 1912, the Quebec government put a halt to all long term borrowing. In 1897, the Premier declared that:

...il est urgemment nécessaire d'éviter pour un certain temps toute dépense, à la fois au chapitre du capital et du revenu non immédiatement essentielle à notre progrès, de telle sorte que le déséquilibre dans nos finances, si longtemps

¹⁰¹ "Budget Speech" delivered by the Honourable F.G. Marchand, Treasurer of the Province of Quebec in the Legislative Assembly of Quebec, January 24th, 1900, pp. 37-38.

dérangé puisse être rétabli.¹⁰²

Indeed, one of Marchand's successors, Premier Lomer Gouin, was able in the first decade of the twentieth century to reverse the debt spiral which plagued Quebec throughout the late nineteenth century and reduce the excess of liabilities over assets.¹⁰³

F. Conclusion

From the mid-1870's through the 1890's, the province of Quebec was borrowing extensively in order to deal with a constantly rising debt. Economists of the period generally contended that one of the worst features of traditional borrowing policy was the long term for which loans were incurred. They agreed that works of a more permanent character (e.g. railways) often called for proportionately longer loan periods. Avoiding perpetual debt was considered important and thirty year terms on borrowing were preferred to the 50 year maximum typically favoured by Quebec. According to an American authority on borrowing, the primary question in fixing the term should be how rapidly the community or the state could pay the debt. Economist Paul Studenski concluded that:

¹⁰² Discours sur le budget prononcé par l'Honorable F.G. Marchand, Trésorier de la Province à l'Assemblée Législative de Québec, 14 décembre 1897, in Jocelyn St. Pierre, edit., session de 1897-1898, p. 100.

¹⁰³ The Gouin Government and its Works: Seven Years of Progress and Sound Administration, Montreal Elections: 1912, pp. 13-16.

Due consideration should be given to the tax revenues which can be used for the payment of the loans and the savings which could be effected in the total costs of shortening the terms of the loans. The terms should be much shorter than those commonly fixed...¹⁰⁴

Borrowing for a long term was frequently associated with the view that the debt could be carried over the life of the project and at some period over the period economic conditions would facilitate the government's ability to pay. This practice ignored the possibility that the community or state may over the period of the loan find itself unable to meet the debt charges. As Quebec incurred new loans faster than old loans were liquidated, the province faced the possibility of exhausting its borrowing powers. A number of economists shared the view that:

....the real reason for the long term is the desire to reduce to a minimum the amounts to be raised immediately from taxes, and thus to shift the larger proportion on the future; the theory is that the generation which uses the improvement should pay for its cost.¹⁰⁵

In the case of Quebec's investment in the Q.M.O. & O. Railway, the government abandoned the improvement within six years after its participation and was left with a large debt. Moreover, by overextending itself on a particular initiative, the government's ability to invest in other projects would likely be limited.

¹⁰⁴ Paul Studenski, Public Borrowing (National Municipal League, 1930) in Mills and Starr, op. cit., p. 741.

¹⁰⁵ Ibid, p. 736.

For a variety of reasons throughout the late nineteenth century, Quebec politicians objected to the frequent comparisons of their financial situation with that of Ontario. This held true for attempts to contrast the balance sheet of the two provinces. During the 1880's, while Quebec's debt continued to increase, the province of Ontario was able to maintain an excess of assets over liabilities.

TABLE NO. 7-4
Comparison of per capita balance on assets and liabilities
for the provinces of Quebec and Ontario,
1885-1897 (approximate figures)

	QUEBEC (per capita debt)	dollar values ONTARIO (per capita surplus)
1885/86	- 8.00	+3.30
1891/92	-11.00	+2.70
1876/97	-17.00	+2.40

SOURCE: Quebec: Budget Speech of the Honourable J.G. Robertson, Treasurer of the Province, in the Legislative Assembly of Quebec, 1886, and the Gouin Government and its Works, 1912, Program of the Quebec Liberal Party, pp. 14-15. Ontario: Financial Statement of the Treasurers in the Legislative Assembly of Ontario, for the years 1886, 1891 and 1896.

During the early 1880's, an important provincial Conservative politician remarked that: "Une dette publique, contractée pour de grands travaux d'intérêt général, n'est pas un fardeau ni une cause d'approvisionnement pour un pays".¹⁰⁶ But not everyone agreed with this analysis. Examining this issue, one astute critic noted that:

¹⁰⁶ See Speech of the member for Montmorency riding, Mr. Desjardins, in DALQ, 22 février 1883, p. 597.

Depuis que nous sommes entrés dans la voie des emprunts, de tout ce qui s'occupe de la chose publique, les uns y ont vu un grand danger pour l'avenir de notre province, les autres ont voulu en vain combattre cette idée.¹⁰⁷

In an effort to justify Quebec's financial position, it was suggested that there was nothing unnatural about contracting a debt for developmental purposes such as the construction of railways.

Some analysts suggested that it would perhaps be more appropriate to compare the debt of Quebec to that of certain governments of the United States in order to gain a better understanding of the broader context in which the province found itself in the latter part of the nineteenth century. Almost every State in the Union, including the richest and most prosperous, possessed a debt.¹⁰⁸ The following list was submitted before the Quebec Legislative Assembly:

¹⁰⁷ See Speech of Liberal budget critic Joseph Shehyn in DALQ, 6 mai 1884, p. 936.

¹⁰⁸ See Speech of member for Montmorency riding, Mr. Louis-Georges Desjardins, in DALQ, 22 février 1883, p. 597.

TABLE NO. 7-5
Debts of select State Governments of the United States
for the year 1880

	Population (1880) Millions	Consolidated Debt, Millions	Floating Debt Millions
Alabama	1.26	9.1	3.0
Arkansas	802	2.5	2.5
California	864	3.3	
Connecticut	622	4.0	
Georgia	1.5	9.6	
Louisiana	939	12.1	3.9
Maine	648	5.8	2.5
Maryland	934	11.2	
Massachussets	1.783	32.5	
Missouri	2.168	16.9	.250
New Hampshire	346	3.3	.73
North Carolina	1.399	16.9	10.1
Pennsylvania	4.282	20.2	.880
Tennessee	1.542	20.2	6.3
Virginia	1.512	29.6	2.7

SOURCE: DALQ, 22 février, 1883, p. 597.

While it is legitimate to argue that Ontario was in a unique financial position from the 1880's to the close of the nineteenth century, it was still not simple to contextualize Quebec's debt situation. While it is also true that in 1880 many American states had a higher per capita debt than Quebec, their situation improved over the subsequent decades whereas that of the province deteriorated. Studenski and Kroos note that the combined debt of the States reached a total of 450,000,000 or \$9.98 per capita in the mid-1870's and then dropped to 211,000,000 or \$3.37 per capita by the 1890's.¹⁰⁹ The latter figure was dramatically less than the per capita

¹⁰⁹ Studenski and Kroos, op. cit., p. 194.

debt amassed by Quebec over the same period.

Clearly, as reflected by the evolution of the assets and liabilities, the two provinces went in a different direction financially from 1867 to 1896. Towards the close of the nineteenth century, the respective financial situations described by Quebec and Ontario treasurers bore little resemblance. In 1900, Premier and treasurer George W. Ross approached the new century with confidence knowing that his province had an excess of assets over liabilities. Moreover, a Royal Commission had reassured the provincial government of the value of its assets. Ross concluded that:

...the circumstances under which we are about to consider the financial condition of the province of Ontario are so very favourable. We have a buoyant revenue...and we have no hesitation in asking this House to consider increased expenditures in various directions, from the fact that our revenue is fully adequate for all proposed expenditures.¹¹⁰

In Quebec, Félix-Gabriel Marchand was not inspired by the sense of optimism which his Ontario counterpart possessed. A substantial debt had been accumulated and Marchand considered it necessary to take drastic measures to prevent a difficult situation from turning into a desperate one. Reflecting on the past three decades, in his December 1897 budget speech, Marchand stated that:

...the people of this province and its government

¹¹⁰ Financial Statement of the Honourable George W. Ross, Treasurer of the Province, delivered on March 8th, 1900, in the Legislative Assembly of Ontario., p. 3.

had accustomed themselves to look upon its resources as inexhaustible. The consequence had been an era of prodigality during which the Legislature...had profusely vested away the public moneys in subsidies.¹¹¹

Marchand claimed that this attitude had given rise to recurring annual deficits and the accumulation of a large public debt. He insisted that in the interest of provincial autonomy and the maintenance of local institutions, the former approach would have to be suspended. This would be marked by a freeze on large capital projects. In light of this, as the nineteenth century drew to a close, Marchand concluded: "Such is the thankless task that I have formally pledged myself to accomplish with the Members of this House".¹¹²

¹¹¹ Budget Speech of the Honourable Félix-Gabriel Marchand, printed in the Montreal Gazette, December 15, 1897, p. 1.

¹¹² Ibid.

APPENDIX I

ASSETS AND LIABILITIES, ONTARIO
SEPTEMBER 30, 1875

I. ASSETS

1. Investment-		
(a) Dominion 6 per cent.		
in Stocks and Bonds.\$	850,000	00
Do. 5 per cent.		
Debentures.....	1,897,805	01
		<hr/>
		\$2,747,805 01
(b) Special Deposits in Banks at 5 per cent.		
interest-for particulars see statement		
No.2,(1875)p.8.....	1,373,000	00
(c) Balance to credit on current cash		
accounts.....	24,248	63
(d) Drainage at 5 per cent. Municipal		
Debentures.....	161,971	19
(e) Drainage, Municipal Rent.....	240,672	10
2. Municipal Loan Fund Debt-		
Value of Debentures still unsold, L35,100		
Sterling.....	170,820	00
3. Special or Trust Funds with Dominion of Canada-		
(a) Upper Canada Grammar School		
Fund.....\$	312,769	04
(b) Upper Canada Building Fund.	1,472,391	41
(c) Common School Fund.....	914,246	90
		<hr/>
		2,699,407 35
4. Value of Library-share assigned to Ontario		
by arbitrators.....	105,541	00
5. Premiums over cost at market value of		
Dominion 5 and 6 per cent. Securities,		
held by Ontario.....	267,113	09
		<hr/>
Total Assets.....	\$7,790,578	37

II. LIABILITIES

1. Railway Aid Fund.....\$	941,258	00
2. Railway Subsidy Fund.....	282,187	64
3. Surplus Distribution to Municipalities.....	1,085,098	77
4. Quebec's share of "Common School Fund".....	325,657	12
5. Aid to Counties for Goals under		
"Prison Inspection Act".....	60,000	00
		<hr/>
Total Liabilities.....	\$2,694,201	53
		<hr/>
Total Assets over Liabilities.....	\$5,096,376	84

SOURCE: Financial Statement of the Honourable Adam Crooks, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, 3 December, 1875, pp. 25-26.

APPENDIX II

ASSETS AND LIABILITIES, ONTARIO DECEMBER 31, 1879

ASSETS

1. Investment: Dominion Bonds, Debentures.....	\$1,365,567 92
2. Drainage: Debentures, rent charges for work completed.....	598,963 14
3. Upper Canada Grammar School Fund.....	312,769 04
4. Upper Canada Building Fund.....	1,472,391 41
5. Land Improvement Fund.....	124,685 18
6. Common School Fund.....	876,573 00
7. Miscellaneous.....	390,446 85
Total Assets.....	<u>\$5,141,396 54</u>

LIABILITIES

1. Railway Aid.....	\$ 284,000 00
2. Surplus distribution to Municipalities.....	107,320 96
3. Quebec's share of Common School Fund.....	316,362 42
4. Land Improvement Fund.....	124,685 18
Total Liabilities.....	<u>\$ 832,368 56</u>
Total Assets over Liabilities.....	<u>\$4,309,027 98</u>

SOURCE: Financial Statement of the Honourable S.C. Wood, Treasurer of the Province, in the Legislative Assembly of Ontario, 29th June, 1880, pp. 7-11.

APPENDIX III

ASSETS AND LIABILITIES, ONTARIO
DECEMBER 31, 1885

ASSETS

1. Investment: Dominion Bonds, Debentures.....	\$ 550,000 00
2. Drainage: Debentures, rent charges for work completed.....	537,434 97
3. Upper Canada Grammar School Fund.....	312,769 04
4. Upper Canada Building Fund.....	1,472,391 41
5. Land Improvement Fund.....	124,685 18
6. Common School Fund.....	891,201 74
7. Capital declared owing to the late Province of Canada by Dominion Act. Ontario's proportion on basis of Award as advised by Finance Department.....	2,848,289 52
8. Miscellaneous.....	398,228 45
Total Assets.....	<u>\$7,135 000 31</u>

LIABILITIES

1. Surplus distribution to Municipalities.....	\$ 1,845 97
2. Land Improvement Fund.....	3,994 81
3. Quebec's share of Common School Fund.....	363,069 24
Total Liabilities.....	<u>\$ 368,910 02</u>
Total Assets over Liabilities.....	<u>\$6,766,090 29</u>

SOURCE: Financial Statement of the Honourable A.M. Ross, Treasurer of the Province in the Legislative Assembly of Ontario, 18th February, 1886, pp. 18-19.

APPENDIX IV

ASSETS AND LIABILITIES, ONTARIO
DECEMBER 31, 1890

ASSETS

1. Investment: Dominion Bonds, Debentures.....	\$ 210,000 00
2. Drainage: Debentures, rent charges for work completed.....	517,448 02
3. Upper Canada Grammar School Fund.....	312,769 04
4. Upper Canada Building Fund.....	1,472,391 41
5. Land Improvement Fund.....	124,685 18
6. Common School Fund.....	1,440,070 21
7. Balance of Unpaid Subsidy and other Credits.	1,590,519 37
8. Miscellaneous.....	150,332 98
Total Assets.....	<u>\$5,818,216 21</u>

LIABILITIES

1. Surplus distribution to Municipalities.....	\$ 1,291 30
2. Land Improvement Fund.....	3,256, 57
3. Quebec's share of Common School Fund.....	3,672 45
Total Liabilities.....	<u>\$ 8,220 32</u>
Total Assets over Liabilities.....	<u>\$5,809,995 89</u>

SOURCE: Financial Statement of the Honourable R. Harcourt, Treasurer of the Province, in the Legislative Assembly of Ontario, 24th March, 1891, pp. 23-24.

APPENDIX V

ASSETS AND LIABILITIES, ONTARIO
DECEMBER 31, 1895

ASSETS

1. Investment and Drainage: Debentures, works..	\$ 470,883 89
2. Upper Canada Grammar School Fund.....	312,769 04
3. Upper Canada Building Fund.....	1,472,391 41
4. Land Improvement Fund.....	124,685 18
5. Capital under Act of 1884.....	848,289 52
6. Common School Fund.....	1,441,882 90
7. Bank Balances.....	437,580 89
Total Assets.....	<u>\$5,108,482 83</u>

LIABILITIES

1. Surplus distribution to Municipalities.....	\$ 1,291 30
2. Land Improvement Fund.....	6,028 21
3. Quebec's share of Common School Fund.....	22,182 56
Total Liabilities.....	\$ 29,502 07
Total Assets over Liabilities.....	\$5,078,980 76

SOURCE: Financial Statement of the Honourable R. Harcourt, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, 18th February, 1896, pp. 40-41.

APPENDIX VI

ASSETS AND LIABILITIES, ONTARIO
DECEMBER 31, 1899

ASSETS

1. Investment and Drainage: Debentures, works..	\$ 286,104 18
2. Upper Canada Grammar School Fund.....	312,769 04
3. Upper Canada Building Fund.....	1,472,391 41
4. Land Improvement Fund.....	124,685 18
5. Capital under Act of 1884.....	2,848,289 52
6. Common School Fund.....	1,488,482 48
7. Bank Balances.....	836,195 39
Total Assets.....	\$7,368,917 20

LIABILITIES

1. Balance of account Current with the Dominion from Confederation to date, including Common School fund and other Transfers, capitalization of the Bounty of the Crown under tribal treaties assumed by the Dominion, the capital having been apportioned to the Provinces under various awards with interest upon the said account current, and including interest as between Ontario and Quebec not finally adjusted.....	\$2,000,000 00
2. Railway and Annuities certificates.....	3,053,876 12
3. Liability to other Crown trusts in connection with certain land sales, the mortgages for which were taken over by these trusts upon the guarantee of the Consolidated Revenue Fund.....	61,297 62
4. Quebec's share of Common School Fund.....	2,811 42
Total Liabilities.....	<u>\$5,117,985 16</u>
Total Assets over Liabilities.....	<u>\$2,250,932 04</u>

SOURCE: Financial Statement of the Honourable George W. Ross, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, 8th March, 1900, pp. 39-40.

APPENDIX VII

LIABILITIES AND ASSETS

OF THE PROVINCE OF QUEBEC UP TO THE 31ST DECEMBER, 1883

LIABILITIES

Funded debt at 31st December, 1883, outstanding.....	\$18,307,826 67
Less amount included in appropriation for 1883-84 for Sinking Fund.....	57,730 83
	<hr/>
	\$18,250,095 84
Temporary loans and deposits.....	452,665 24
Railway subsidies, authorized but not yet earned.....	1,605,075 75
Balance of appropriation and special warrants for 1883-84.....	2,113,611 07
Balance of estimated cost of Parliament Building, say.....	150,000 00
Balance of land debts Q.M.O. & O. Railway not included in appropriations and balance due contractor.....	111,936 86
	<hr/>
Amounting in all to.....	\$22,683,384 76

ASSETS

Part price of Q.M.O. & O. Railway paid and invested.....	\$ 600,000 00
Balance of price of Q.M.O. & O. Railway not yet due.....	7,000,000 00
	<hr/>
Appropriated by law as sinking fund upon the first three loans.....	7,600,000 00
Quebec Court House debentures to be issued...	150,000 00
Deposit in Bank of Montreal, part proceeds of loan of 1882.....	1,500,000 00
Cash in Bank.....	157,261 63
Balance estimated receipts for 1883-84.....	1,756,353 03
City of Montreal, difference between \$132,000 and cost of lands expropriated between Dalhousie Square and Hochelaga.....	74,567 58
City of Montreal subscription to Hull Bridge.	50,000 00
Loans and balance of interest on school lands due by Ontario.....	136,000 00
	<hr/>
	\$11,424,282 24
	<hr/>
Leaving balance of liabilities over assets...	\$11,259,202 52

SOURCE: The Budget Speech by the Honourable J.G. Robertson, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, May 2nd, 1884, pp. 9-10.

APPENDIX VIII

LIABILITIES AND ASSETS
OF THE PROVINCE OF QUEBEC UP TO THE 31ST JUNE, 1887

LIABILITIES

Funded debt outstanding.....	\$18,117,233	33	
Temporary loans and deposits.....	1,329,105	25	
Outstanding warrants at 31st January, 1887...	240,753	72	
Railway subsidies, authorized but not yet earned.....	530,107	25	
Railway land subsidies converted into money subsidies under 49-50 Vic., Cap 77, and authorized by order in council prior to the 31st January, 1887, 3,800,500 acres at 70cts. per acre.....	\$2,660,350.00		
First 35cts. per acre payable as the work is done.....	\$1,330,275	00	
Paid on account of same to 31st January, 1887.....	310,653	30.	1,019,521 70
Railway land subsidies which may be converted into money subsidies, 1,326,000 acres at 70 cts. per acre.....	908,600.00		
First 35 cts. per acre payable as the work is done.....	454,300	00	
Estimated cost of Parliament Building.....	75,123	00	
Contract for statues on Parliament Building..	25,000	00	
Estimated amount to complete Court House.....	100,487	28	
Balance of land and other debts Q.M.O. & O.			
Railway.....	60,070	00	
Loss on Exchange Bank deposit.....	27,000	00	
Quebec Court House Bonds.....	200,000	00	
Amounting in all to.....	\$22,188,700	08	

ASSETS

Part price of Q.M.O. & O. Railway paid and invested.....	\$ 600,000 00
Balance of price of Q.M.O. & O. Railway not yet due.....	7,000,000 00
	<hr/> 7,600,000 00
Capitalized railway subsidies under Dominion Act. 47 Vic., 8.....	2,394,000 00
Claim against Honourable Thomas McGreevy.....	100,000 00
Cash in Bank.....	81,761 66
Balance estimated receipts for 1883-84.....	1,756,353 03
Cost of Jacques-Cartier school, Montreal, to be repaid from sale of property.....	138,348 02
Advances to various parties.....	87,771 40
Estimated amounts due as interest on Common School Fund from Ontario.....	135,000 00
City of Montreal subscription to Hull bridge.	50,000 00
City of Montreal contribution towards lands expropriated between Hochelaga and Dalhousie Square.....	72,188 02
Quebec Court House Tax under 45 Vic., 26 and 48 Vic., Cap. 15.....	200,000 00
	<hr/> \$10,859,069 10
Leaving balance of liabilities over assets...	<hr/> \$11,329,620 98

SOURCE: Budget Speech of the Honourable Joseph Shehyn, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, 14th March, 1888.

APPENDIX IX

QUEBEC ASSETS AND LIABILITIES AS OF DECEMBER 17, 1891

LIABILITIES

Funded debt.....	\$25,209,873	33
Temporary Loans.....	150,000	00
Dominion of Canada - Price of Property purchased for Q.M.O. & O. Railway.....	85,680	12
Trust Deposits.....	258,243	25
Outstanding Warrants.....	149,600	21
Railway Company Deposits to meet guaranteed interest on bonds.....	1,860,765	64
Loss on Exchange Bank Deposit.....	25,500	00
Quebec Court House Bonds.....	200,000	00
Total Liabilities.....	\$27,939,662	55

ASSETS

Price of sale of the Q.M.O. & O. Railway.....	\$ 7,600,000	00
Railway grant under Dominion Act. 47 V., C. 8. Sinking Fund.....	2,394,000	00
Cash in Banks.....	893,491	27
Cost of Jacques Cartier Normal School, Montreal to be repaid from sale of property.....	138,348	02
Advance in re late Hon. Ths. McGreevy.....	100,000	00
Advances to various parties.....	145,352	69
Quebec Court House Tax.....	200,000	00
Total Liabilities	\$11,471,191	98
Excess of Liabilities over Assets.....	\$16,468,470	57

SOURCE: The Gouin Government and its Works, 1912, The program of the Quebec Liberal Party, pp. 14-15.

APPENDIX X

QUEBEC ASSETS AND LIABILITIES AS OF MAY 26, 1897

LIABILITIES

Funded debt.....	\$34,225,747 42
Dominion of Canada - Price of Property purchased for Q.M.O. & O. Railway.....	25,000 00
Trust Deposits.....	281,468 26
Outstanding Warrants.....	21,955 71
Railway Company Deposits to meet guaranteed interest on bonds.....	595,227 53
Loss on Exchange Bank Deposit.....	25,218 75
Quebec Court House Bonds.....	200,000 00
Total Liabilities.....	<hr/> \$35,374,617 67 <hr/>

ASSETS

Price of sale of the Q.M.O. & O. Railway.....	\$ 7,600,000 00
Railway grant under Dominion Act. 47 V., C. 8. Sinking Fund.....	2,394,000 00
Cash in Banks.....	789,328 54
Cost of Jacques Cartier Normal School, Montreal to be repaid from sale of property.....	6,153 60
Advance in re late Hon. Ths. McGreevy.....	100,000 00
Advances to various parties.....	161,832 89
Quebec Court House Tax.....	200,000 00

Total Liabilities \$11,251,315 03

Excess of Liabilities over Assets.....\$24,123,302 64

SOURCE: The Gouin Government and its Works, 1912, The
program of the Quebec Liberal Party, pp. 14-15.

APPENDIX XI

Details of Quebec loans from 1874-1896

DATE OF ISSUE	May 1, 1874	May 1, 1876
DATE OF MATURITY	May 1, 1904	May 1, 1906
WHERE PAYABLE	London	Same
INTEREST RATE	5 per cent	Same
AMOUNT OF LOAN	\$3,893,333 33	\$4,185,333 33
AMOUNT REDEEMED	\$1,169,460 00	\$1,073,586 66
AMOUNT OUTSTANDING	\$2,723,873 33	\$3,111,746 67

DATE OF ISSUE	November 1, 1878	July 1, 1880
DATE OF MATURITY	May 1, 1904	July 1, 1919
WHERE PAYABLE	London	London or Paris
INTEREST RATE	5 per cent	4 1/2 per cent
AMOUNT OF LOAN	\$3,893,333 33	\$4,275,853 33
AMOUNT REDEEMED	\$1,169,460 00	\$2,147,659 98
AMOUNT OUTSTANDING	\$2,723,873 33	\$2,128,193 35

QUEBEC FUNDED DEBT, JUNE 30, 1900

DATE OF ISSUE	July 1, 1882	January 1, 1888
DATE OF MATURITY	At 1 year's notice After July 1, 1912	January 1, 1928
WHERE PAYABLE	London Quebec	London or Paris
INTEREST RATE	5 per cent	Same
AMOUNT OF LOAN	\$2,433,333 33 \$1,066,500 00	\$3,513,733 33
AMOUNT REDEEMED	\$ 670,626 66 \$ 286,000 00	\$ 289,080 00
AMOUNT OUTSTANDING	\$1,762 706 67 \$ 780,500 00	\$3,224,653 33

DATE OF ISSUE	March 1, 1894	December 30, 1894
DATE OF MATURITY	March 1, 1934	January 20, 1955
WHERE PAYABLE	London or Montreal	Paris
INTEREST RATE	4 per cent	3 per cent
AMOUNT OF LOAN	\$2,920,000 00	\$5,332,976 00
AMOUNT REDEEMED	\$ 382,033 33	\$.....
AMOUNT OUTSTANDING	\$2,537,966 67	\$5,332,976 00

QUEBEC FUNDED DEBT, JUNE 30, 1900

DATE OF ISSUE	May 1, 1896	April 1, 1897
DATE OF MATURITY	May 1, 1936	April 1, 1937
WHERE PAYABLE	London or Mtl	Same
INTEREST RATE	4 per cent	3 per cent
AMOUNT OF LOAN	\$3,017,333 33	\$1,360,000 00
AMOUNT REDEEMED	\$2,725,333 33	\$.....
AMOUNT OUTSTANDING	\$ 292,000 00	\$1,360,000 00

	TOTAL
AMOUNT OF LOAN	\$34,998,395 98
AMOUNT REDEEMED	\$ 9,045,779 96
AMOUNT OUTSTANDING	\$25,952,616 02

SOURCE: "Statement of the Public Debt of the Province of Quebec at the 30th June, 1900", in Quebec Sessional Papers, (no. 2), Appendix no. 3, 1 Edward VII, A.D. 1900-1901, p. 14.

CHAPTER 8
DOMINION-PROVINCIAL RELATIONS

A. Introduction

In his brief overview of the "Historical Background and Development of Federal-Provincial Financial Relations", J. Harvey Perry identified certain rules which were intended to influence the Federation financial arrangements. He referred to "tax organization" as the competition among the stronger governments which he added, must not become so disorderly so as to wreck the economy. He stressed "fiscal need" as the process of dividing the available revenues through a conscious effort to see that the weaker members of the family of governments are given special consideration. Perry suggested that "fiscal need" was highlighted by the establishment of statutory subsidies under which, despite the effort to offer equal treatment, some provinces were clearly extended favourable terms. Perry concluded that another factor which conditioned the federal-provincial fiscal arrangements was the "...historic imperative of paying regard to provincial autonomy and in particular, for the special interests of Quebec".¹

The debate over the financial arrangements of the Federation was the subject of considerable discussion in both Quebec and Ontario through much of the post-Confederation period. One of the main concerns centered around the strength or weakness of

¹ J. Harvey Perry, "The Historical Background and Development of Federal-Provincial Financial Relations" in Canadian Public Administration, Volume 5, 1962, pp. 23-24.

the federal government relative to the provinces. The need to assure a certain degree of financial stability was a critical factor in influencing the relationship between the two levels of government.

In the mid 1860's, supporters of the Federation in Quebec expressed their confidence in the province's ability to successfully manage its financial affairs under the new scheme. Others considered that the proposed financial arrangements would leave the provinces overly dependent on the central government. During the Confederation debates such criticism was made by Christopher Dunkin who ultimately became Quebec's first provincial treasurer. He argued that the provinces would frequently be compelled to go to the federal government for funds. He was concerned, for example, that provincial politicians would go to their constituents and say: "...we got the Federal Government to increase the subvention to our province by five per cent a head, and see what this gives you - 500 dollars to that road - 1,000 dollars to that charity - so much here, so much there...".² Dunkin feared that the population would be frequently placed in a situation where such practices were condoned. He concluded that:

...the provincial constituencies, legislatures and executives will all show a most calf-like appetite for the milking of this one most magnificent

² "The Debate on Confederation: The Opponents" in J.M. Bliss ed. Canadian History in Documents, 1763-1966, Toronto: Ryerson Press, 1966, p. 130.

government cow...³

During the post-Confederation period, the view of Ontario politicians who supported greater autonomy for the province prevailed over that of politicians who advocated a highly centralized Federation. In 1871, Liberal Premier Edward Blake insisted that "...the provincial and federal levels be absolutely independent of the other in the management of its own affairs".⁴ Blake considered interference in provincial matters to be unacceptable and his successor, Oliver Mowat, seemed equally inspired by this view during his lengthy tenure in office.

During the Confederation debates, George Brown expressed his satisfaction that with the proposed arrangements between the Dominion and the provinces, Ontario would be disentangled from the financial problems of its eastern neighbour. This proved to be a somewhat simplistic analysis of the relationship which developed between the federal government and the provincial administrations of Quebec and Ontario regarding financial matters in the post-Confederation period. While Brown did not forecast Quebec's dismal financial performance, he realized that the latter province's difficulties would, at the very

³ Ibid.

⁴ Bruce W. Hodgins, "Disagreement at the Commencement: Divergent Ontarian Views of Federalism, 1867-1871", in Donald Swainson, ed. Oliver Mowat's Ontario, Toronto: Macmillan of Canada, 1972, p. 65.

least, have a profound impact on his province. The evolution of the two provinces financial positions, particularly that of Quebec, would inevitably affect both the political and constitutional make-up of the country.

In his book, The Politics of Federalism, historian Christopher Armstrong suggests that because of its size and wealth, the province of Ontario was able to resist attempts by the federal government to "bully or bribe it into line" with respect to the constitutional arrangements. With its successful post-Confederation financial performance, the idea of "better terms" with the federal authorities had much less appeal for the province of Ontario than it had for other provincial governments. Armstrong adds that Ontario sought little change to the financial arrangements under the BNA Act during the late nineteenth century.⁵

Many Ontario provincial politicians expressed the concern that fiscal changes might bring on transfers of funds to the lesser endowed provinces beyond that which was already provided for under the BNA Act. According to Armstrong when other provinces sought more money from the federal government Ontario usually held itself aloof. He contends that:

Mowat and his successors could afford to stay home

⁵ Christopher Armstrong, The Politics of Federalism: Ontario's Relations with the Federal Government, 1867-1942, Toronto: University of Toronto Press, 1981, p. 28.

when other Premiers went cap-in-hand to Ottawa and to resist changes in the financial relations between the federal and provincial governments which did not meet with Ontario's approval.⁶

While Ontario administrators had disputes with the federal authorities - particularly with regard to jurisdiction over natural resources - the discussions were dissimilar to those within which Quebec was engaged with Ottawa. With the objective of meeting its mounting post-Confederation debt, Quebec politicians regularly pressed the federal government to consider allocating more funds to the province. These demands became intertwined with the notion of provincial autonomy which was advanced by Quebec during the 1880's. A leading nineteenth century advocate of provincial autonomy, Quebec Premier Honoré Mercier proposed that the provinces meet to discuss changes to the federal system with a view to establishing a "system of common defence" against the centralizing tendencies emanating from Ottawa. It has been suggested that Mercier's main interest was much less with federal interference in local affairs than the perceived inadequacy and injustice of the financial arrangements under the BNA Act.⁷

Despite the Ontario government's superior financial position throughout the nineteenth century, while it did not initiate

⁶ Ibid, p. 4.

⁷ Ibid, p. 28.

demands for fiscal adjustments, it had few objections to obtaining additional funds from the federal government. Therefore, Ontario was ready to co-operate with its neighbours if it perceived that it would obtain financial compensation that was proportionately equal to that of the other provinces.

In the previous chapter, we examined the dispute between Quebec and Ontario over the division of the pre-Confederation assets and the excess debt. In the case of certain disputed assets, there was no resolution arrived at during the nineteenth century. It was observed that both provinces had common claims against the federal government which emanated from the pre-Confederation period and involved important sums of money. In spite of the dispute over the Common School Fund, Quebec and Ontario had co-operated over the federal government's removal of provincial responsibility for the excess debt and negotiations over the division of certain pre-Confederation assets. In 1882, for example, Quebec and Ontario treasurers met to discuss a common strategy for the settlement of accounts between the two provinces and the Dominion government regarding the pre-Confederation accumulations. The tenor of these discussions had an important bearing on the possibility of co-operation between the two provinces on other financial matters.

The settlement of accounts between the two provinces and the

Dominion was particularly critical to a Quebec in desperate need of funds. In advance of the matter being resolved, the province of Quebec procured two loans from the federal authorities, the first in 1879 for 500,000 dollars and the next in the following year, for the sum of 125,000 dollars. During the early 1880's, the Quebec provincial government was confident that significant compensation could be forthcoming. In the latter part of 1883, Quebec treasurer J.G. Wurtele notified federal Finance Minister Leonard Tilley and senior Quebec federal Cabinet Ministers, J.A. Chapleau, Hector Langevin and A.P. Caron, of the need to arrive at a prompt settlement of the outstanding financial questions. Leonard Tilley was informed that Quebec urgently required funds given its financial circumstances. It was essential, Wurtele concluded, to know what might be forthcoming in the event that the province would be obliged to look for alternative means of meeting its pending fiscal commitments.⁸

Wurtele appealed to Langevin, Caron and Chapleau to induce the central government not to further delay the resolution of the settlement of accounts. In a lengthy disclosure to former Premier Chapleau, treasurer Wurtele charged that:

This delay is extremely unfair to the two Provinces. As for the Province of Quebec, this delay is a cause of great embarrassment for the

⁸ See correspondence of the 14th November, 1883, from Wurtele to Tilley, Chapleau, Langevin and Caron in Quebec Sessional Papers, (no. 88), 47 Victoria, 1884, pp. 47-51.

government in the present position of its finances... The manner in which we are treated by the Department of Finance, will certainly produce discontent, which in the interest of the good working of the system inaugurated by Confederation should not arise.⁹

The pressure exerted by Quebec politicians on their federal counterparts had a significant impact on federal-provincial financial relations. The financial predicament of Quebec during the 1880's severely tested the Dominion-Provincial fiscal relationship. Also in that decade, both Quebec and Ontario governments were preoccupied by what they perceived to be unacceptable federal encroachment in provincial jurisdiction. The most important examples of this were the Dominion's issuing of liquor licenses, the judicial challenge to Quebec's attempt to impose commercial corporate taxes and the dispute over ownership of certain Crown lands. Each of these questions involved vital sources of revenue to the provinces at a time when both Quebec and Ontario were regularly experiencing deficits on annual ordinary operations. Efforts by the two provinces, in particular Quebec, to extract increased funds from the federal authorities should not be assessed independently from the noted jurisdictional disputes with Ottawa. Faced with the possibility of losing income in certain vital areas, officials deemed it essential to examine means to confront this situation. In addition to these

⁹ See correspondence, 14th November, 1883, J. Wurtele to Honourable J.A. Chapleau, in Quebec Sessional Papers, (no. 88), 47 Victoria, 1884, pp. 50-51.

considerations, one should not dismiss the political precedents at stake in these federal-provincial fiscal disputes.

Both in the case of taxation on commercial corporations and liquor licenses, the actions of the federal authorities reinforced the provinces insistence upon the protection of its rights. Indeed, Quebec treasurer J.G. Robertson maintained that the difficulty over the license question arose from the Dominion Parliament interfering with provincial rights. Upon the initial victory over the licensing of liquor, he concluded that: "...the factum of our solicitor was a complete vindication of provincial rights, and was listened to by the Honourable judges and quoted from in giving their decision".¹⁰

In Ontario where the federal initiative posed a greater threat to the province's revenue, the perceived federal intrusion was the subject of an even more vigorous protest. In 1886, Ontario treasurer A.M. Ross expressed his regret at the federal government's refusal to withdraw from issuing licenses despite rulings against such action by the Supreme Court. Ross concluded that this "illegal and unjustifiable" intervention in the license question impaired relations

¹⁰ Speech on the Budget, delivered by the Honourable J.G. Robertson, Treasurer of the Province of Quebec in the Legislative Assembly of Quebec, May 2, 1886, p. 19.

between the province of Ontario and the federal government.¹¹ Ultimately, this important fiscal and constitutional matter was referred to the Privy Council which ruled in favour of the provinces. This decision had the effect of weakening the position of the federal government relative to the provinces at a time when crucial negotiations were taking place on a number of fiscal matters. It is difficult to assess the precise impact this may have had on other concerns, but it clearly gave some momentum to the advocates of provincial autonomy.

In his 1884 budget speech, treasurer J.G. Robertson presented four major demands which highlighted Quebec's ongoing fiscal claims upon the federal government during the 1880's. They were as follows:

First, compensation paid to the Province of Quebec for the amount paid by the Dominion Government in aid of the construction of the Canada Central Railway and for the railway to Gravenhurst to Callander in the Province of Ontario out of the Dominion funds, towards which we contributed, and Government expenditure on other railways.

Second, an additional per capita subsidy over the amount mentioned in the BNA Act, 1867, consequent upon our increased population and increased expense connected with carrying on provincial affairs.

Third, the interest upon the Quebec share of the surplus debt of the late Province of Canada over the 62 1/2 million dollars assumed by the Dominion from 1867 to 1873, when the Dominion relieved the

¹¹ Financial Statement of the Honourable A.M. Ross, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, February 18th, 1886, p. 32.

provinces of Ontario and Quebec from the said surplus debt.

Fourth, that the Province of Quebec be relieved from the cost of the administration of criminal justice - that is the cost of the criminal laws of the Dominion - a cost increasing yearly as our population increases, which the Dominion revenues are alone benefitted by the increased population in the consumption of our dutiful goods.¹²

In that which follows, we will examine the first three claims listed above with a particular emphasis as to their impact not only on Dominion-Provincial relations, but on their influence upon the relationship between Quebec and Ontario.

B. Railway Claims

The origin of Quebec's claim for compensation arising from railway expenditure was linked to the province's investment in the Q.M.O. & O. Railway and to the debt to which it had given rise. As early as 1878, prior to the sale of the Q.M.O. & O. Railway, the provincial Conservatives were exploring the possibility of federal financial support.

During the late 1870's, there was little doubt that the province of Ontario was unsympathetic to its eastern neighbour's fiscal dilemma and the Mowat administration had concerns that it might indirectly be required to pay a portion

¹² Budget Speech by the Honourable J.G. Robertson, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, May 2nd, 1884, pp. 40-41.

of Quebec's debt arising from that province's railway ventures. When in 1880, Quebec considered the sale of the Q.M.O. & O. Railway to the Dominion, Ontario treasurer S.C. Wood maintained that since the residents of his province were responsible for half of all federal income, the potential buyout of the railway would cost Ontarians several million dollars.¹³ The Ontario treasurer believed that Quebec had to find its own way to resolve its financial plight since he alleged that they had gone behind year after year as a matter of course.¹⁴ Wood maintained that given these circumstances, Quebec should not receive aid from the federal government. He contended that:

I myself would feel that if Quebec through unforeseen or unavoidable circumstances had gone behind financially of if it had come about as a result of the Confederation Act, she would be deserving of sympathy at the hands of her sister province... that such is not the case, then, I say, she is neither entitled to our sympathy nor to receive assistance at the hands of the Dominion government.¹⁵

The possibility of the federal authorities helping Quebec to meet its railway related fiscal problems was labelled by the Mowat administration as an affront to the people of Ontario. Treasurer Wood believed that federal intervention would send the wrong message to Ontarians who had been so industrious and

¹³ Financial Statement of the Honourable S.C. Wood, Treasurer of the Province, delivered on January 29th, 1880, in the Legislative Assembly of Ontario, p. 15.

¹⁴ Ibid, p. 17.

¹⁵ Ibid, p. 18.

enterprising during the first ten years of the Federation. He concluded that:

You [Ontario] have never asked for aid to railways or education or agriculture; without first subscribing yourselves; but all that is to count for nothing if you shall assist to pay the indebtedness of the weaker and less enterprising Province. The Province which has been provident shall be made to suffer, and the Province which has been improvident shall be rewarded.¹⁶

In 1882, the Quebec government proposed the sale of the Q.M.O. & O. Railway to the Dominion for the sum of 7,000,000 dollars. When introducing the resolution into the Quebec Legislature authorizing the potential sale to the Dominion, the province's Attorney General declared that: "Let the Federal Government buy our property for \$7,000,000. This would represent a loss to the Province of \$4,000,000, but Quebec is willing to make a sacrifice which would ensure it an independent line for the traffic of the C.P.R. and at the same time, give great impulse to the commercial prosperity of the Province".¹⁷ Therefore, in that year, the province of Quebec in justifying the sale, considered that it had received sufficient value for the Q.M.O. & O. Railway as a provincial and local work.

The possibility of federal financial aid for Quebec railways

¹⁶ Ibid, p. 20.

¹⁷ Reference to the statement by the Quebec Attorney General made by Ontario Treasurer A.M. Ross in Financial Statement of the Honourable A.M. Ross, Treasurer of the Province of Ontario, in the Legislative Assembly of Ontario, 13th February, 1885, p. 47.

did not end with the sale of the Q.M.O. & O. Railway. Indeed, shortly after the sale, the Quebec government pressed for further compensation from the federal government for the Q.M.O. & O. Railway on the grounds that the construction of this route contributed to the general advantage of Canada. In February 1884, Quebec Premier John J. Ross pointed out that whatever the province was reimbursed "...would still remain a very small amount as representing the interest taken in the Canadian Pacific Railway by the Province of Quebec, and the sacrifices it has made and [it] will continue to enjoy a small share of its advantages".¹⁸

At the same time, during which the sale of the Q.M.O. & O. Railway was being finalized, the Canadian Pacific Railway was looking for substantial financial assistance from the federal government. When in 1884, the federal government considered extending a 22,500,000 dollar subsidy to the C.P.R., Quebec politicians increased their pressure for compensation to their province. The suggestion was put forth that as the Q.M.O. & O. Railway became part of the Canadian Pacific system, the total contribution to the Quebec railway should match proposed assistance by the federal authorities to spending on the C.P.R. in Ontario.

¹⁸ "Memorandum of the Honourable Premier of the Province [John J. Ross], 11th of February, 1884, " in Quebec Sessional Papers, (no. 88), 47 Victoria, 1884, p. 81.

Treasurer J.G. Robertson pointed out that both Liberal Prime Minister Alexander Mackenzie and Conservative Prime Minister John A. Macdonald promised that two lines of railroad, one for each province, would be subsidized in connection with the C.P.R. The Quebec treasurer maintained that these promises had been fulfilled in the case of Ontario by the large grants made to the Canada Central Railway, as part of the Canadian Pacific and the railway from Gravenhurst to Callander.¹⁹

Robertson insisted that the situation which he described was unfair to Quebec and he concluded that:

So far, so good for Ontario, but our claim for compensation to at least an equal amount per mile [\$12,000] for the Q.M.O. & O. Railway, from Quebec to Ottawa has hitherto been kept in abeyance by the Dominion Government and nothing but promises of consideration at some future time could be obtained. We thought the time had come for a recognition and adjustment of this claim along with the others...²⁰

In certain quarters, it was alleged that the Quebec government timed its demands so as to coincide with the difficult question of the Canadian Pacific loan. Critics added that federal members of Parliament from Quebec were asked to withhold support for the C.P.R. unless the provincial claims were favourably considered by the federal government. J.G. Robertson denied such charges and pointed out that as Quebec

¹⁹ Budget Speech by the Honourable J.G. Robertson, Treasurer of the Province, in the legislative Assembly of Quebec, 2nd May, 1884, p. 41.

²⁰ Ibid, p. 42.

confronted provincial elections in January 1884, the Attorney General and the treasurer could not act until the government was reinstated by the voters. With the provincial Conservative victory, Robertson felt that it was necessary to present the province's just claims at the earliest possible time.²¹

The province of Quebec succeeded in obtaining compensation for the Q.M.O. & O. Railway by an Act of Parliament in 1884. The federal government recognized the Q.M.O. & O. Railway as a work of national and not merely provincial utility and extended to Quebec a subsidy of 2,394,000 dollars. This badly needed fund provided the province with approximately 120,000 dollars in annual interest which was added to the ordinary revenue.

The Mowat administration rejected the comparison evoked by Quebec between the subsidy to the Canada Central Railway and the Q.M.O. & O. Railway and there was great hostility among Ontario politicians over the subsidy provided to the Q.M.O. & O. Railway. Ontario members of Parliament and former provincial Premier, Edward Blake, argued that "such wholesale subventions were a pernicious form of centralization".²²

²¹ Ibid, p. 40.

²² Peter B. Waite, Canada: 1874-1896, Arduous Destiny, Toronto: McClelland and Stewart, 1971, p. 135.

Given that Ontario municipalities had contributed over 3,000,000 dollars in railway subsidies for lines that became part of the C.P.R., Blake wondered whether they too should be given compensation. Prime Minister John A. Macdonald replied that while Blake condemned the notion of financial compensation as "corrupt in spirit", he simultaneously argued that the federal authorities did not go far enough in making the remuneration.²³

In his 1885 financial statement Ontario treasurer A.M. Ross argued that when in the early 1880's, the federal government took upon themselves "the burden and responsibility" of extending aid to the construction of future railway lines, they developed a new relation to the provinces.²⁴ Ross pointed out that previously, the federal government had only provided support for large "inter-national" railways wholly within the provinces. Charters for local railways were obtained from the provinces which generally imposed conditions on grants. While he did not imply that the Dominion intended to change the conditions of railway charters, Ross declared that:

When the Dominion Government assumed to take control of these roads, they have assumed the power, without the consent of the Provincial

²³ Ibid, p. 136.

²⁴ Financial Statement of the Honourable A.M. Ross, Treasurer of the Province of Ontario in the Legislative Assembly of Ontario, 13th February, 1885, p. 46.

Legislatures, to change the conditions imposed in those charters as they see fit...These conditions were imposed by this Province in consideration of the aid given to the railways and now views and opinions of the people of this Province may be over-ridden by the views of other representatives of the Dominion Parliament.²⁵

It was in this regard that Ross believed that the action of the Dominion was mistaken. Treasurer Ross considered it his responsibility to insure that Ontario receive "equal justice" with the other provinces. By assuming control for aid to certain local railways, treasurer Ross concluded that the federal government "rendered themselves, if not legally, [then] morally and equitably liable to the Provinces and the municipalities for a reimbursement of the aid that had been given...".²⁶ Ross contended that it was upon their grounds that Quebec received its grant of 2,394,000 dollars for the Q.M.O. & O. Railway. The assumption was based upon powers given under section 92 of the BNA Act, whereby the federal government could declare any work, though it may be within the province to be of general interest to the Dominion.

Once the federal authorities had created the precedent, as in the case of the Q.M.O. & O. Railway, Ross insisted that the same principle should be applied to the province of Ontario which was entitled to a portion of the amount which it had spent on railways declared to be for the benefit of the

²⁵ Ibid, p. 45.

²⁶ Ibid, p. 46.

Dominion (e.g. the municipal and provincial contribution to the Canada Central Railway). Unfortunately, the Mowat administration was unsuccessful in making this appeal which clearly marked a change in strategy from the unequivocal denunciation of the subsidy to Quebec.²⁷

In his 1887 financial statement, A.M. Ross once again pursued the issue of the grant to Quebec for the Q.M.O. & O. Railway and the injustice this created for Ontario. Ross noted that other provinces had done less than Ontario in meeting the requirements for railways made by different localities. He was concerned about the possible financial effect on Ontario of transferring responsibility for the construction of railways from the province to the Dominion out of the general revenues of the Federation. He concluded that the province of Ontario which "built its roads with its own money" would be forced to contribute to the general revenues of the Dominion toward the development of railways in other provinces. Ross provided the following estimates of the Dominion's contribution to local railways from 1882 to 1886.

²⁷ Ibid, pp. 46-47.

TABLE NO. 8-1
Railway grants from the federal government, 1882-1886

	ONTARIO	QUEBEC	N.SCOTIA	N.BRUNSWICK	TOTAL
1882 \$	600,000 \$	500,000 \$	224,000 \$	120,000 \$	1,448,000
1883	749,600	876,800	256,000	756,000	2,638,800
1884	772,800	6,068,200*	514,000	1,719,000	9,074,000
1885	329,300	2,133,000	1,225,000	527,400	4,214,300
1886	834,300	1,223,565	275,200	354,200	2,687,265
	\$3,286,000\ \$10,805,565\ \$2,494,200\ \$3,476,600\ \$20,062,363				

* This figure is largely the result of federal funds provided indirectly to the Quebec, Montreal, Ottawa and Occidental Railway.

SOURCE: Financial Statement of the Honourable A.M. Ross, Treasurer of the Province of Ontario, delivered on the 15th March, 1887, in the Legislative Assembly of Ontario, p. 21.

Ross stressed that as Ontario contributed at least one half of total Dominion revenue if it were to receive a proportional share of railway grants, it would have obtained 10,000,000 dollars of the total federal spending in this sector. If grants were extended on the basis of population, Ross noted that his province would receive upwards of 9,000,000 dollars. As it did not receive such compensation, the Ontario treasurer concluded that his province was the "milk cow" providing support for the enterprises of the other provinces. As we shall observe, the province of Ontario clearly had a preference for per capita arrangements with regard to all financial assistance extended to the province by the federal

government.²⁸

C. The Excess Debt Question

In his study of Federal Subsidies to the Provincial Governments in Canada (published in 1937), James Ackley Maxwell suggests that the growing difficulty which Quebec encountered in making annual interest payments on its share of the pre-Confederation excess debt gave rise to its challenge to reevaluate the 1867 settlement. The potential unfairness of the settlement of the debt was not the reason for Quebec's hostility rather it was the financial situation of the province particularly when compared to that of its more affluent neighbour.²⁹

In 1871, two Quebec members of Parliament raised the question of the debt excess before the House of Commons and proposed that the federal government should assume the entire burden of Quebec and Ontario. At first, the proposal was defeated by an overwhelming vote in the House. The acting leader of the government, Sir George Etienne Cartier pointed out that since Quebec was contesting the overall Dominion-provincial fiscal

²⁸ The case for granting equivalent funds to Ontario railways was made in 1887. See Financial Statement of the Honourable A.M. Ross, Treasurer of the Province of Ontario, delivered on the 15th March, in the Legislative Assembly of Ontario, p. 21.

²⁹ J.A. Maxwell, Federal Subsidies to the Provincial Governments in Canada, Cambridge: Harvard University Press, 1937, p. 54.

settlement in the courts, the whole question was "sub judice".³⁰

But the issue was merely delayed and two years later, Sir John A. Macdonald agreed to assume the entire debt which he considered an "apple of discord" between Quebec and Ontario. With the Tilley Act of 1873, the Dominion assumed responsibility for the entire pre-Confederation debt of approximately 73,000,000 dollars increased from the 62,500,000 dollars originally covered by the federal authorities under Section 112 of the BNA Act. J.A. Maxwell concluded that:

In 1873, the Dominion had, seemingly, made a generous settlement by assuming this debt. But in such matters, the granting of one favour seems to lead only to the demand for another.³¹

Maxwell notes that the government of Quebec soon declared that the debt allowance of the two provinces had by the passage of the Act of 1873, rectified an original mistake in the British North America Act. A healthy co-operation emerged between the governments of Quebec and Ontario over the claim for reimbursement of the interest paid by the provinces from 1867 to 1873 on the excess of the pre-Confederation debt. The claim was initiated by the province of Quebec in 1880 and founded upon a particular interpretation of the Tilley Act of 1873. Treasurer J.G. Robertson believed that the language

³⁰ Ibid.

³¹ Ibid, p. 58.

employed in the Tilley Act implied than an injustice had been committed in the BNA Act whereby the surplus debt was charged to the province. If, therefore, no sum was due on the principal of the debt by Ontario and Quebec at the time of Confederation then it was clear that no interest should have been chargeable against the provinces.

When in 1880, a Quebec delegation first presented this claim before the federal government, it was told that its interpretation of the Tilley Act was unreasonable and would not be allowed. The federal government initially paid no heed to the representations made by Quebec. Nonetheless, pressure continued to be exerted both by federal and provincial representatives from Quebec throughout the early 1880's. J.A. Maxwell maintains that Quebec's expectations with regard to the surplus debt were exceeded by the federal authorities. Aside from the interest charged on the debt from 1867-1873 being fully repaid, the Dominion credited the provinces with "...interest on the interest". Maxwell contends that:

By this unexpected generosity, Quebec was given a sum greater by 70 per cent than it had requested. The reason for this generosity was that the government of Sir. John A. Macdonald had decided to use the occasion to make a general grant of better terms to all the provincial governments.³²

Thus, early in 1884, the Dominion presented legislation providing a sum of approximately 2,550,000 to Quebec and

³² Ibid, pp. 60-61.

2,880,000 to the province of Ontario.

Ontario treasurer A.M. Ross shared Quebec's interpretation of the excess debt question. Like Robertson, the Ontario treasurer maintained that by the Act of 1873, his province was entitled to be relieved from the interest. Ross argued that the Dominion's acceptance of the province's interpretation was not merely an act of grace. If this were the case Ross declared that "...there would be no justification for giving it to Quebec and Ontario jointly upon the basis of the division of debts as fixed by the award and not upon population".³³ (An equivalent sum was provided to the three smaller provinces - Nova Scotia, New Brunswick and Manitoba - upon the basis of their respective populations).

The province of Ontario's Conservative opposition disputed the government's interpretation of the 1873 Act as "wholly unwarranted" and added "that it would be a very gross breach of faith on the part of the Dominion if they were to grant it".³⁴ The opposition added that the total grant was not in the interests of Ontario as the province contributed two-thirds to three-fourths of Dominion revenue and therefore stood "perhaps" to contribute more than it would receive if it

³³ Financial Statement of the Honourable A.M. Ross, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, February 13th, 1885, p. 12.

³⁴ Toronto Daily Mail, February 17, 1885, p. 4.

obtained the return in proportion to population.

The Ontario Conservative organ, the Toronto Daily Mail, regarded Mowat's acceptance of the arrangement as "a serious blunder". The proposal originated with Quebec's "desperate straits for money", according to the Mail which contended that Premier Mowat put the finances of Ontario in such a position that it too became imperative for the province to get more funds. It was for this reason that treasurer Ross grasped at the suggestion made by Quebec regarding the arrears from 1867.³⁵

In a sense, treasurer Ross confirmed certain allegations made by the opposition. In his 1885 financial statement, Ross acknowledged that Quebec was making urgent demands for financial aid with regard to railways and other matters and if it took a firm stand, it would obtain compensation. Consequently, Ross stated that "...I had no doubt that Quebec would be successful, but that if an increase of subsidy were granted to Quebec, Ontario must take the ground that she was entitled to an equivalent".³⁶ Ross argued that:

Was it not much better...that this Province should take the position that if Quebec should get more relief from the financial embarrassment under which

³⁵ Ibid.

³⁶ Financial Statement of the Honourable A.M. Ross, Treasurer of the Province, in the Legislative Assembly of Ontario, February 13, 1885, p. 13.

she was labouring, it should be upon some basis whereby Ontario should receive an equivalent? Honourable gentlemen opposite, I suppose...would have refused this \$2,800,000 and allowed Quebec to take her proportion...³⁷

The Ontario treasurer concluded that it was far better that the province press its claims when other provinces were pressing their own.

J.A. Maxwell contends that the assumption which inspired the legislation of 1873 and 1884 - that the debt assumed in 1867 was insufficient - was "without the least factual or historical foundation".³⁸ He concludes that on both occasions, generous concessions were made in order to counteract pressure from Quebec. Maxwell regarded the reasons proposed for these fiscal measures to be tenuous, insofar as federal Minister of Finance Tilley felt that the financial embarrassment of the provinces gave them a special claim to "federal largesse". Maxwell concluded that:

...by making a general increase of debt allowances in 1873 and 1884, the federal government had further bedeviled the financial terms of the British North America Act. The debt allowances, devised to equalize the amounts of provincial indebtedness assumed by the Dominion, had been twisted into a scheme for giving better terms.³⁹

As we shall see, the interpretation of J.A. Maxwell in 1937 as to the reasons for changes to the financial arrangements of

³⁷ Ibid.

³⁸ Maxwell, op. cit., p. 63.

³⁹ Ibid.

1867, differed sharply from the explanation put forth by Quebec Premier Lomer Gouin in the early twentieth century.

D. Federal-Provincial Arbitration

Despite the provinces ongoing dispute over the Common School Fund and other assets, both Quebec and Ontario ultimately sought an important return from the Dominion, on certain funds which it held in trust. In the early 1880's, the treasurers of Quebec and Ontario frequently met to discuss the settlement of accounts and called upon the Dominion to prepare a statement of debts and credits to the provinces. One of their main requests was that "...a balance should be struck yearly; and that in arriving at such balance, interest should be allowed or charged half-yearly, and that the amounts, determined by the award, be taken as the basis, so far as it applies to the statement in question".⁴⁰

In October 1888, the treasurers of Quebec and Ontario met with the federal Minister of Finance to settle the accounts. An important question arose with regard to the interest which the provinces claimed to be owed from the Dominion held funds. To that point, there appeared no indication as to an objection

⁴⁰ "Memorandum Without Prejudice" written by S.C. Wood, Treasurer of Ontario and J.Wurtele, Treasurer of Quebec, Ottawa, 23rd November, 1882, in Accounts of the late Province of Canada and the Provinces of Quebec and Ontario with the Dominion of Canada and correspondence in connection therewith. From 1st July, 1867, to 30th June 1883, Ottawa: Maclean, Royce and Co., 1884, pp. 11-12.

over the way in which the interest would be calculated. In his 1889 budget statement, Ontario treasurer Ross was surprised to learn in the previous year that the federal government proposed an interest payment of "5% simple" as opposed to "5% compound interest" on the accounts held by the Dominion (i.e. Common School Fund).⁴¹ Ross maintained that this proposed rate of interest ran counter to an 1882 arrangement reached between the provinces and the federal government. The Dominion claimed that it was not legally bound by the agreement of 1882 which it did not sign. Treasurer Ross concluded that the federal authorities had by "...repeated and continuous acts given tacit and active acquiescence in the agreement of 1882" and he added that "...it is too late in the day to say now, Oh! this was all done without prejudice, and we are not legally bound".⁴²

It was estimated that the difference between simple and compound interest could potentially benefit each province by approximately 1,000,000 dollars. The provinces vigorously pursued this issue led by treasurer Ross who pointed out that in numerous settlements, compound interest had been allowed. The people of Ontario, Ross noted, were "...paying two-thirds of the revenue of the Dominion [and were] entitled to as

⁴¹ Financial Statement of the Honourable A.M. Ross, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, February 14th, 1889, p. 28.

⁴² Ibid, p. 29.

liberal consideration in interest on their funds used by the Dominion as the seigniorial lords of Lower Canada or the wandering Indian tribes".⁴³

The federal government apparently objected that if compound interest were extended to Ontario and Quebec, other provinces would ask for an equivalent compensatory grant. Treasurer Ross considered this excuse to be both "preposterous and inadmissible". He declared that:

Ontario and Quebec do not ask this grant as a favour, we claim it as a right due us by the Dominion including the other provinces, for which they have received full value. They have had the use of our money for 20 years, all we claim, is for the use of that money interest at 5% should be added yearly to the balance at our credit.⁴⁴

Ross concluded that this issue revolved around the rights of the province. He insisted that:

Ontario will never consent to bribe the other provinces with her own money to secure her just rights if any idea of opening a way to make a grant to other provinces at our expense is at the bottom of the strange proceeding...⁴⁵

Unfortunately, the provinces were not successful in getting approval for their request that "compound" and not "simple" interest be applied to their settlement with the Dominion. The negotiations over this matter demonstrated that by the late 1880's, the province of Ontario was prepared to assume

⁴³ Ibid, p. 30.

⁴⁴ Ibid.

⁴⁵ Ibid, p. 31.

the lead on certain financial questions despite its far lesser financial need relative to that of Quebec.

E. The Dominion Subsidy

Under the Confederation scheme, the provinces transferred the power to levy customs and excise duties in exchange for an annual subsidy of eighty cents per head of the population according to the census of 1861. By the terms of section 118 of the British North America Act, it was stipulated that the provinces should claim nothing further from the federal government with respect to the subsidy. At the time of Confederation, it was widely believed that the fixed subsidy provided by the Dominion would comfortably meet the major expenditures of the provinces.⁴⁶ Moreover, by freezing the total subsidy according to the 1861 census, it was hoped that provincial governments would be incited to control their spending. The federal Minister of Finance at the time of Confederation, Alexander Galt, declared that as the subsidy was fixed and permanent in its character, the province would learn the importance and necessity of exercising vigilance when it came to spending.

J.A. Maxwell suggests that the idea of an increased provincial expenditure and increased federal revenues justifying a larger

⁴⁶ See Quebec Sessional Papers, (no. 88), 47 Victoria, A. 1884, p. 68.

subsidy was repugnant to the framers of the Constitution.⁴⁷ By contrast, in his book Question Actuelle: Le Remaniement des Subsidies Fédéraux en Faveur des Provinces, Lomer Gouin wonders whether the architects of the Federation accurately assessed the future needs of the provinces? Gouin concludes that in spite of what the Fathers of Confederation may have estimated, the provinces did not stay within the budgetary limits envisaged in the 1860's.⁴⁸ Consequently, the 1867 arrangement with respect to the subsidy lacked a vision of the financial evolution of the provinces.

As provincial expenditures rose so too did the pressure to obtain additional revenue and by the 1880's, perhaps Quebec's most important fiscal claim was for a sharp increase to the subsidy based upon the population at the last census. In 1883, Conservative representative L.O. Taillon noted that the subsidy was directed primarily at the cost of the administration of justice and lunatic asylums. While the subsidy remained fixed, these two items of expenditure, he demonstrated, followed the movement of the population. Taillon therefore concluded that:

...in calculating this subsidy upon the basis of the census for 1861, the end in view was not attained, in as much as the expenditure in question increases almost in proportion to the population: and to meet it, the subsidy should increase in the

⁴⁷ Maxwell, op. cit., p. 98.

⁴⁸ Lomer Gouin, "Question Actuelle...", op. cit., p. 14.

same ratio.⁴⁹

Both in Quebec and Ontario, the decennial increase in population resulted in a reduced per capita value of the subsidy. Consequently, Taillon recommended that to carry out the intention of the Fathers of Confederation, it would be necessary to increase the annual subsidy upon the basis of the "censa" of each decade.⁵⁰ An adjustment to the annual subsidy according to the latest censa would have produced the following changes:

TABLE NO. 8-2
Projected subsidy according to the population of the censa
in Quebec and Ontario, 1861-1901

QUEBEC		ONTARIO	
POPULATION	SUBSIDY	POPULATION	SUBSIDY
1861 1,111,566	\$ 889,252	1,396,091	\$1,116,872
1871 1,191,516	\$ 953,212	1,620,851	\$1,296,680
1881 1,359,027	\$1,087,221	1,926,922	\$1,541,537
1891 1,488,535	\$1,192,828	2,114,000	\$1,701,456
1901 1,620,974	\$1,296,779	2,182,947	\$1,746,357

SOURCE: Lomer Gouin, "Question Actuelle...", op. cit., p. 77.

It was estimated that, between 1867 and 1901, if the subsidy for Quebec and Ontario was adjusted to their increased

⁴⁹ L.O. Taillon "Address in the Legislative Assembly of the Province of Quebec...claiming a modification to the effect that the subsidy to this Province be calculated according to each preceding census" in Quebec Sessional Papers, (no. 88), 47 Victoria, A. 1884, p. 73.

⁵⁰ Ibid, pp. 73-74.

populations, the provinces would have added several million dollars to their respective total incomes over that period.

Proponents of the subsidy revision pointed out that the revenue from the federal Customs and Excise duties which was originally offered in return for the subsidy constantly rose since 1867. During the period 1868-1881, revenue from Customs and Excise duties more than doubled from approximately 11,500,000 dollars to nearly 23,750,000 dollars. By 1901, the total revenue from this source was about 39,000,000 dollars. Lomer Gouin pointed out that while at the time of Confederation the provinces received about one-quarter of the total of customs and excise duties, by 1901 the return to the provinces accounted for ten percent. The provinces, Gouin maintained were not receiving an equitable return against the increased amounts which they had been contributing to the federal Treasury from Confederation to the end of the nineteenth century.⁵¹

For many Quebec politicians, the subsidy question was at the very core of the issue of provincial autonomy and would inevitably have a profound impact on the character of federal-provincial relations. Lomer Gouin stated that if in 1865, George Brown correctly observed that in the determination of

⁵¹ L.O. Taillon, "Address in the Legislative Assembly...", op. cit., pp. 69-70 and Lomer Gouin, op. cit., pp. 92-93.

the subsidy little attention was paid to local needs than a constitutional amendment was clearly warranted. Gouin concluded that:

...il ne s'agit pas de savoir si le pouvoir central sera embarrassé, mais si les provinces vont subsister ou disparaître, si l'union fédérale à laquelle nous avons souscrit en 1867 va faire place à une union législative souhaitée jusqu'à la fin par certains hommes politiques comme MM. Galt et Macdonald, mais à laquelle MM. Cartier, Langevin, Caron, Chapais, n'auraient pu se résigner sans trahir leur province.⁵²

During the early 1880's, the federal Conservatives were able to withstand pressure to increase the subsidy as Prime Minister John A. Macdonald expressed his disapproval of the request for a revision. In the Senate, a leading French Canadian Conservative, Mr. Bellerose, declared that if Quebec controlled its spending, it would not require an increase. Bellerose concluded that:

Que le gouvernement du Québec réduise ses dépenses et essaie de mettre les deux bouts ensemble. Il sera temps pour lui, alors, de demander une augmentation de subventions, et je ne doute pas qu'elle lui soit accordée...⁵³

Gouin alleged that in the 1880's, Macdonald made concessions on other demands presented by Quebec (i.e. the railway and debt compensation) in order to avoid providing an increase to the subsidy. Some argued that given the federal government's willingness to offer funds to the provinces in these other

⁵² Gouin, op. cit., p. 94.

⁵³ Ibid, p. 144.

cases there was no reason to be concerned over the future. Gouin believed that as compensation to the provinces was temporary in nature and inspired by partisan motives, the federal government appeared to extend aid only during a critical moment. As a result, Gouin remarked that a province's financial situation was subject to the whims of the federal government. He described the way in which concessions were extracted by the provinces as follows:

...les provinces, au lieu d'être toutes régies par une même loi, étaient toutes à la merci d'Ottawa, dont les faveurs allaient, non pas aux plus méritantes, mais aux plus avides, mais aux plus inconstantes dans leurs attaches politiques, mais aux plus hardies.⁵⁴

While the Quebec provincial Conservatives first presented the case for revision of the subsidy, it was Liberal Nationalist Premier Honoré Mercier that led the most concerted effort in presenting the demand. Premier Mercier invited other Premiers to attend an interprovincial conference in Quebec City where joint action would be proposed on certain fronts, particularly with regard to existing financial arrangements. The provinces of Quebec, Ontario, Nova Scotia, New Brunswick and Manitoba attended the Conference which opened on October 20, 1887. Amongst the resolutions adopted was a demand for an increase to the federal subsidy. Resolution 17 of the Conference called for the following changes:

...(B) Instead of an annual grant per head of the population now allowed, the annual payment

⁵⁴ Ibid, p. 75.

hereafter to be at the same rate of eighty cents per head, but on the population of each province as ascertained from time to time by the last decennial census, until such population exceeds 2,500,000; and at the rate of sixty cents per head for so much of said population as may exceed 2,500,000.

...(D) The amounts so to be paid and granted yearly by the Dominion to the provinces respectively to be declared by imperial enactment to be final and absolute, and not within the power of the Federal Parliament to alter, add to or vary.⁵⁵

It seemed that the Resolution had very limited impact on the federal authorities under the administration of John A. Macdonald. In fact, one authority of the period suggests that for some time, the proposals emanating from the Conference were "completely forgotten".⁵⁶ The idea was, however, by no means abandoned by the provinces and was certainly not forgotten by Quebec.

It has been argued that in 1887, the Mowat administration was not very enthusiastic about the idea of a subsidy revision. J.A. Maxwell notes that this notion was at odds with orthodox provincial Liberal opinion of that period. According to a number of analysts, Ontario was satisfied with existing financial arrangements and whatever readjustments might be proposed, the province wished to ensure that they were final. In 1888, treasurer A.M. Ross summed up the province's position

⁵⁵ "Proceedings of the Interprovincial Conference held at the City of Quebec from the 18th to the 20th of December, 1902, inclusively", in Ontario Sessional Papers, (no. 4.) volume XXXV, 1903, p. 9.

⁵⁶ Maxwell, op. cit., p. 100.

as follows:

The impecunious position of some of the provinces, in some cases necessitated relief in some form from their financial embarrassment, and the political exigencies of the federal government made it difficult to resist... demands: but my purpose is to point out that such a system of capricious assistance is pernicious... and has been decidedly unjust to Ontario..."⁵⁷

Ross maintained that the state of things could not continue as the "...capricious system of aiding the provinces was both improvident and demoralizing".⁵⁸

Two reasons appeared to contribute to Liberal Premier Mowat's acquiescing to the proposals for subsidy revision made at the 1887 Interprovincial Conference. First, in order to advance certain Ontario concerns over constitutional reform, Mowat prepared to accept the other province's demands. Second, the province of Ontario was worried that as other provinces continually obtained concessions from the federal Treasury, it would continue to occur at the wealthiest province's expense unless it attempted to secure its just share.⁵⁹ The Toronto Globe concluded that:

...she who pays the greater part of the Dominion revenue, should be forced to see the money paid by her people distributed among others and herself receive no addition to the revenue assigned to her

⁵⁷ A.W. Boos, op. cit., p. 43, and Christopher Armstrong, op. cit.

⁵⁸ Ibid.

⁵⁹ Maxwell, op. cit., p. 98.

by the British North America Act.⁶⁰

Under the Liberal administration of Premier S.N. Parent, in December 1902, another interprovincial conference took place in Quebec City. While Ontario had certain reservations about the initiative in 1887, the province's financial circumstances changed substantially in the early twentieth century. Although Premier George W. Ross was unable to attend the Conference, he transmitted to S.N. Parent a "Memorandum respecting the financial basis of the provinces under the British North America Act". This document was characterized by an endorsement on the part of Premier Ross for a revision to the subsidy along the lines developed at the inaugural Interprovincial Conference of 1887. On the subsidy question, Premier Ross remarked that: "...the present basis ignores the fact that, while the increase of population lightens the burdens of the Dominion in as much as it multiplies the contributors to the revenue from customs and excise, the increase of population adds to the burdens of the Provinces without any corresponding contribution towards their maintenance".⁶¹

⁶⁰ Ibid.

⁶¹ "Memorandum Respecting the Financial Basis of the Provinces Under the British North America Act", Honourable George W. Ross, Premier of Ontario, in "Proceedings of the Interprovincial Conference..." in Ontario Sessional Papers, printed by the order of the Legislative Assembly of Ontario, volume XXXV, no. 4, 1903, p. 13.

One has to look at the early twentieth century to trace the evolution of the provinces position on the subsidy question. At the 1902 Conference, attended by then Minister of Colonization and Public Works, Lomer Gouin, a commission was established to prepare a resolution concerning the readjustment of the federal subsidy to the provinces. Some felt that in addition to revising the subsidy according to the last census, that the per capita allocation should be raised from 80 cents to one dollar. Ultimately, the provinces unanimously agreed upon a reaffirmation of the demands laid out in Resolution 17 of the 1887 Conference.

F. Conclusion

In this chapter, we have examined a number of the major fiscal disputes between Quebec, Ontario and federal government from Confederation to the end of the century. It is clear that the province of Ontario's superior financial standing through much of the period had an important bearing on the degree of interest it manifested in certain financial claims. Still, Ontario provincial administrations did not hold themselves as "aloof" from the discussions over changes to the financial arrangements as contemporary historians would have us believe.

Contrary to the wishes of Ontario officials, the province was unable to disentangle itself from the financial affairs of other provinces. As early as 1880, Ontario treasurer S.C.

Wood expressed his concern with the possible cost to Ontarians of Quebec's growing dependence on the federal government. In addition to the economic consequences of this situation, the disproportionate level of dependence between the provinces clearly had political implications for the issue of provincial autonomy. By 1892, Ontario treasurer R. Harcourt recognized that:

...the large and constantly increasing debt of Quebec is from an Ontario point of view, alarming and all parties there seem to take it for granted that sooner or later the Federal government must come to the rescue.⁶²

For certain Quebec politicians, there was always a fear that financial problems could lead the province to further relinquish authority to the federal government. This was clearly a situation which the advocates of provincial autonomy wished to avoid. In the 1880's, a provincial Liberal leader remarked that:

Qu'on ne se fasse pas d'illusions, plus nos embarras financiers se multiplieront, plus nos finances seront obérées, plus nous courrons les risques de voir s'opérer ce qui nous inspire le plus de crainte pour notre province, l'union législative.⁶³

The possibility of "better terms" for the provinces from Confederation to the beginning of the twentieth century, had severe political repercussions for both levels of government.

⁶² Financial Statement of the Honourable H.R. Harcourt, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, February 19, 1892, p. 31.

⁶³ DALQ, 1882, p. 1384.

Clearly, it would seem that beyond providing temporary financial assistance to the provinces, John A. Macdonald was uncomfortable with conceding better terms. But he was perpetually confronted with pressure from inside his party to offer financial assistance to Quebec. Proponents of a strong centralized Federation believed that by providing better terms, they were giving in to advocates of autonomy and there would be no end to further demands. Provincial politicians notably in Quebec, did not see better terms in this manner. In 1881, provincial Conservative leader J.A. Chapleau described Quebec's position in the following terms:

Le gouvernement d'Ottawa devrait, il semble, nous accorder ce qu'on est convenu d'appeler des "better terms"! Nous ne demanderons pas l'aumône, nous n'irons pas quêter de faveurs! Nous pouvons nous soutenir et marcher bravement sans nous humilier. Nous ne demandons que justice.⁶⁴

Lomer Gouin was aware of the perception that the appeal made by the provinces was considered a danger to Ottawa. He considered this to be a useful lie employed by those who would dismiss legitimate provincial grievances. He maintained that the vital challenge for the Federation was to convince the population that the central government was not the enemy of the provinces. Gouin insisted that the provinces did not reinforce this view and he concluded that: "Qu'on ne s'en prenne donc pas à nous si les provinces revendiquent de plus

⁶⁴ Gouin, op. cit., p. 125.

en plus fortement leur droit à l'autonomie".⁶⁵

Prior to the enactment of Confederation, some concern was expressed around the principle of a fixed subsidy which proved pertinent in light of subsequent developments. Some objected to such a formula on the grounds that it would weaken the authority of provincial legislatures as it would be difficult for an elected body to have significant control over decision-making without controlling the "purse strings". In his study of federal-provincial financial relations, A.W. Boos remarks that the latter view was "...supported and in large measure substantiated by the experience of history".⁶⁶ It may be suggested that provincial autonomy from a financial standpoint was difficult to reconcile with the principle of the fixed Dominion subsidy.

Quebec's financial problems compelled the province to press certain fiscal claims upon the federal authorities. During the 1880's, it sought the assistance of Quebec Conservatives within the federal government while attempting to mobilize the other provinces in pursuit of a solution to its fiscal quandary. As a result of Quebec's financial position, it approached the concept of provincial autonomy from a different direction than Ontario. When the latter province called for

⁶⁵ Ibid, pp. 94-95.

⁶⁶ Boos, op. cit., p. 9.

no federal "interference" in its affairs, it did so with sufficient fiscal resources at its disposal. For Quebec, however, in order to achieve autonomy, the province counted upon the federal authorities to substantially increase funding to the province. Ironically, during the nineteenth century, the government of Quebec generally depended on the Dominion if it wished to secure its autonomy.

CHAPTER 9

CONCLUSION

There is an important relationship between financial and political considerations in the elaboration of public policy. Studies of the role of the state in Quebec and Ontario which have focused on public finance have generally confined their analysis to the patterns of expenditure which characterized the two provinces. Still, it is essential to look beyond the expenditures and examine the broader financial circumstances in which Quebec and Ontario found themselves in order to assess the major factors influencing the behaviour of provincial administrators. By exploring several aspects of public finance in the two provinces certain observations can be made with respect to the evolution in the financial positions of the two provinces in the post-Confederation period, the type of fiscal management which was adopted by the political leadership of Quebec and Ontario from 1867 to 1896 and the impact of the 1867 Constitutional arrangements on the province's respective financial affairs over the period.

In the attempt to identify patterns in the activity of state administrators in Quebec and Ontario, certain analysts have described provincial government intervention on the basis of ideology. Some have referred to the activity of provincial governments as either conservative or liberal in their ultimate behaviour. For example, from 1867 to the end of the nineteenth century, Ian Drummond suggests that Ontario provincial governments managed the finances of the province in

a conservative manner.¹ This assessment is supported by that province's successful effort to maintain a relative equilibrium between revenues and expenditures during that period. Moreover, such analysis is simplified by the dominance of the administration of the Liberals under Oliver Mowat between 1872 and 1896. This consistent provincial presence is in contrast to the situation in Quebec where the rule of the provincial Conservatives from 1867 to 1896, was interrupted by the Liberals for a brief period in the late 1870's and during the latter half of the 1880's by the Liberal Nationalist government of Premier Honoré Mercier. The greater degree of financial security in Ontario was clearly a factor in the Mowat administration's grip on power as opposed to the higher level of political instability in Quebec where the financial situation was volatile.

It is widely held that conservative ideology has generally inspired the behaviour of Quebec administrators from 1867 to 1960. On the other hand, over much of the same period, there is a pervasive view that Ontario politicians were considerably more progressive. While the immediate post-Confederation period is considered an exception to this dichotomy, the conservatism of Quebec political leadership is believed to be the cause of a failed modernization of the state compared to Ontario. Contemporary analysts have advanced numerous

¹ Drummond, op. cit., p. 341.

explanations for the Quebec government's alleged inability to adapt to social and economic progress prior to 1960 in the same way as did Ontario. For some time, prior to the Quiet Revolution, there was an important consensus that cultural factors contributed to a "lag" or "backwardness" on the part of the French-Canadian population which significantly influenced the behaviour of the state particularly in the area of public/government intervention. The dominance of the private sector both in the social and economic domain was attributed to these cultural forces.

Such hypotheses were pervasive in the 1960's, and found their antecedents through much of the late nineteenth century among English Canadians both in Ontario and Quebec. Even the financial disparity between the two provinces was at times also judged to be a function of cultural difference. During the late 1880's, the Toronto Daily Mail, in an editorial entitled "the Case of Quebec", offered an explanation as to why Quebec was so financially embarrassed relative to its wealthy neighbour. The simple answer was that "...in Quebec, the State has to do everything for the people, while in Ontario, the people do a great deal for themselves". The Toronto Daily Mail believed that the problem related to the economic behaviour of the "habitant" which, it suggested, resembled that of the French peasant. He neither believed in vetoing bonuses for railroads, factories or gravel roads. The

Mail added that while he had a "perfect mania for hoarding", the habitant was "really too poor to be progressive". The Mail concluded that:

...public improvements in Quebec are thrown almost entirely upon the province, the soil of which is not so productive as ours, nor the methods of farming economical.²

The enterprising spirit of local institutions in Ontario was cited as an additional factor in the financial disparity between the two provinces. In Ontario, local businessmen spent larger sums on railways and other works than their Quebec counterparts. The Mail concluded that : "The secret of Quebec's poverty as a province and of our [Ontario's] good fortune is to be found here. Our people rush into debt to enable them to undertake new enterprises, whilst the Habitant looks to the State".³

Albert Faucher and Maurice Lamontagne are today generally identified with the emphasis on structural considerations in understanding Quebec's economic and political behaviour. But, during the late nineteenth and early twentieth centuries, certain observers disputed the notion that Quebec's economic and financial "lag" relative to Ontario was related to specific cultural habits of the French Canadian population. At the beginning of the twentieth century, Quebec treasurer

² Toronto Daily Mail, March 18, 1887, p. 4.

³ Ibid.

W.A. Weir argued that the geography of the province of Quebec was less favourable to economic and industrial development while conditions in the Western provinces were better suited to progress in this area. Weir contended that:

It must be borne in mind...that the task of developing the territory of this Province is much heavier than that upon the shoulders of the more western provinces, both from the difficulties anterior to beginning cultivation, and particularly in the matter of railway construction, so essential a feature of all advancing movements of population.⁴

Weir described certain special natural and economic conditions which the province had to overcome if it wished to attain similar levels of development to the province of Ontario. With regard to the South Shore, he referred to the great range of hills and mountains which stretched from Brome to Gaspé, intersected by numerous streams and rivers, that added to the cost of railway buildings and municipal settlement. On the north shore of the St. Lawrence, there were the wide extending Laurentian mountains, stretching from Labrador to Pontiac and intersected by numerous rivers and streams. As a consequence of these geographic limitations, railway promoters left important areas of the province untouched. Seeking lines of least resistance in their advance to the seaboard, most railway promoters turned their interest southward to Portland,

⁴ Budget Speech delivered by the Hon. urable W.A. Weir, Provincial Treasurer, in the Legislative Assembly of Quebec, March 11th, 1909, p.8.

Boston and New York.⁵

Weir believed that the geographic conditions of Ontario were much more conducive to economic and industrial advancement. He argued that as Ontario's elevations were less varied and the province was situated between the seaboard on the one hand and the Western States of America, and the Western Province on the other, it was essential for the major railway companies to build across her territory. It was as a result of these characteristics that railway mileage in Ontario was three times greater than Quebec in relation to its area.

Weir acknowledged that over the first forty years of the Federation while the Quebec provincial government spent considerably more on railway aid than its Ontario counterpart, the municipalities of the latter province were much more liberal in assisting railways than those of their eastern neighbour. Weir pointed out tha'

...the difficulties and responsibilities that lie upon the government of this province and in the development of our territory, result in a great measure from natural and economic causes, and held out no hope for a lessened provincial taxation, but rather point to the assumption by our municipalities of some of the burden of the task.⁶

⁵ Ibid, pp. 8-9.

⁶ Ibid, p. 9. See also "Resources and Progress of Quebec", Address of the Honourable W.A. Weir... before the Empire Club of Canada... April 5th, 1906 in J. Castell Hopkins ed. Empire Club Speeches, 3rd year of issue, Toronto: 1906.

Most observers of the post-Confederation financial experience did not agree that "natural causes" were the principal factor in the financial advantage of Ontario over Quebec. Financial comparisons between the two provinces were made frequently throughout the latter part of the nineteenth century as Quebec politicians often felt compelled to justify their inferior financial position relative to that of Ontario as it evolved shortly after 1867. Certain Quebec officials charged that the Confederation fiscal arrangements placed Ontario at an advantage. Apart from the favourable division of pre-Confederation assets from which Ontario benefitted, Quebec officials referred to their obligation to conduct affairs in both French and English without supplementary federal assistance as a factor which contributed to the province falling even further behind its neighbour from a financial standpoint.

By 1880, some Quebec politicians argued that there was ample evidence for Ontario's having procured an advantage from Confederation by the mere presence of the 4,000,000 dollar surplus of assets over liabilities in that province as compared with Quebec's debt of 12,000,000 dollars.⁷ This situation, it was contended, stemmed from political rather than economic factors. This assertion was quickly dismissed

⁷ Financial Statement of the Honourable S.C. Wood, Treasurer of the Province, delivered in the Legislative Assembly of Ontario, 29th January, 1880, p. 15.

by Ontario officials who maintained that it was their province which had suffered from the unfairness of the Confederation scheme as they were eventually called upon to indirectly support Quebec's debt. With regard to Quebec's perceived sense of injustice, in his 1880 budget statement, Ontario treasurer S.C. Wood contended that:

...I am willing to admit that that would be a very good argument provided the people of the province of Quebec pursued the same system with reference to public matters as we do in the province of Ontario. If the municipalities and if the private citizens of Quebec took a share in constructing public works.⁸

Quebec treasurers acknowledged that the provincial government assumed certain fiscal responsibilities whereby in Ontario the cost of similar items were significantly offset by the municipalities. Apart from the administration of justice, the difference in spending by the two levels of government was especially apparent with respect to railways. Relative to Ontario, many of the municipalities in Quebec were generally in financial straits and often behind those of the former province in their level of economic development. Unlike Quebec, the province of Ontario employed a part of its surplus to liquidate a major portion of the debts accumulated by its municipalities. Without similar intervention in Quebec, the provincial government was looked upon as the major source of aid in the development of the regions largely through the construction of railways.

⁸ Ibid.

For its part, the Montreal Gazette expressed its preference for a system much like that in Ontario where the municipalities assumed a greater share of expenditure. There was a recognition that this implied a willingness on the part of municipal residents to accept more taxation. In the late 1870's, Quebec treasurer Levi Ruggles Church suggested that the municipalities relieve the provincial government of certain obligations. The Montreal Gazette noted however that "...it may be some time before the people of the Province come to realize their true interest in this matter..." Whether the municipalities of Quebec were able to carry additional burdens during the late nineteenth century remains highly uncertain. The relationship between provincial and municipal finance constitutes an important area for further research.⁹

It has been noted that in the area of expenditure, whereas on a per capita basis Quebec spent much greater sums on basic government services and railways than did Ontario, the latter province contributed significantly more to the social mission and, in particular, education and the care of the insane. This prioritization was developed over a certain period of time rather than being inspired by a consistent ideological approach. As Quebec amassed important debts it looked to the other sources for funding in areas traditionally associated with the private sector. It is difficult to estimate the

⁹ Montreal Gazette, December 2, 1876, p. 2.

contribution of the Quebec clergy to expenditures associated with the social mission, but it seems that the government relied more on private charity than did the Ontario administration. It would also appear as though the continued financial weakness of the Quebec government augmented the political importance of the private sector and the clergy in that province toward the end of the nineteenth century. A similar shift of influence from the public to the private domain did not take place in the province of Ontario.

To the extent that the transfer of authority occurred from the province to the municipal and private sector, it would not seem to have been done by design. The province of Quebec did not provide much support for municipal growth through, for example, sharing of income. The term decentralization was used to describe the provincial government's rational for spending less than its neighbours on some items. The ideological importance of the doctrine of decentralization was articulated by Premier Honoré Mercier in 1890. He declared that:

Nous avons de la décentralisation municipales, la décentralisation scolaire, la décentralisation agricole, la décentralisation dans les affaires de l'Eglise, enfin dans toutes les choses qui touchent de plus près les intérêts du peuple. Nous ne connaissons pas de pays où le peuple se gouverne plus directement et plus complètement par lui-même que dans notre province.¹⁰

¹⁰ Ibid.

Political scientist James Iain Gow astutely comments that the perception of decentralisation projected by Mercier was intended to attract external support for provincial policy.¹¹

Contrasting the two provinces financial positions helps us understand the rationale which emerged regarding the management style employed by provincial governments as the Federation evolved. We observed that Ontario entered the Confederation with a certain fiscal advantage over Quebec as a result of approximately 3,000,000 dollars in interest-bearing pre-Confederation assets which were carried forward after 1867. But perhaps the most important factor which put Ontario well ahead of Quebec from a financial standpoint was the former province's accumulation of considerable yearly surpluses prior to the economic downturn of the mid-1870's. Certain observers attributed the disparity to the differential application of the accumulated surplus of assets over liabilities by the respective provincial governments. While the Mowat administration did not "hoard" its surplus, it was careful to ensure that its liabilities did not exceed its assets.¹² On the other hand, once freed from its share of the pre-Confederation debt, the province of Quebec proceeded to spend well beyond the meagre surplus which it managed to

¹¹ Gow, op. cit., p. 596.

¹² Speech on the budget of the Honourable A.M. Ross, Treasurer of the province, in the Legislative Assembly of Ontario, 21st February, 1884, p. 26.

amass prior to the mid-1870's. Quebec treasurer J.G. Robertson was careful to warn the population that they would have to be willing to indebt themselves if they wished the government pursue major initiatives. He also referred to unforeseeable circumstances that raised the projected costs of railway initiatives. All the while, he suggested that Quebec would be capable of managing the debt which arose from government enterprise. This unfortunately did not prove to be the case.¹³

There was no question that the economic conditions under which the Quebec government had made its railway investments exacerbated the province's financial problem. The deteriorating fiscal situation made Robertson increasingly vulnerable to criticism from the political opposition over his original handling of Quebec finances. Consequently, when in opposition, a prominent Quebec Liberal accused Robertson of failing to give adequate consideration to the fiscal future when he took decisions in the more favourable economic cycle. He noted that:

...une époque de prospérité commerciale est toujours suivie d'une crise, puis d'une période de dépression plus ou moins longue. Ils auraient dû alors, comme le marin qui, pendant le calme, se prépare à la tempête qui s'annonce, accumuler des

¹³ Budget Speech of the Honourable J.G. Robertson, Treasurer of the Province in the Legislative Assembly of Quebec, December 6th, 1875, pp. 4-5.

resources pour une époque moins prospère...¹⁴

A more forward looking financial strategy appeared to be adopted by Ontario and some suggested that Quebec should have pursued the same course. The extent to which this was possible given the fiscal resources available to Quebec at that time is clearly subject to question.

From the 1870's to 1896, regular increases to the provincial debt occurred notwithstanding the presence of Quebec Conservatives or Liberals. It would appear that provincial administration's found themselves in a financial situation that was difficult to manage. Nonetheless, while the two Quebec provincial treasurers that dominated the period, Conservative J.G. Robertson and Liberal Joseph Shehyn, both claimed to be advocates of fiscal restraint neither conformed entirely to this practice. Despite the partisan attacks against one another, both Conservatives and Liberals had a share in the aggravation of Quebec's financial predicament. In 1894, Ontario Liberal treasurer H.R. Harcourt stated with regret that in Quebec "...Liberal as well as Conservative administrators must share the divided responsibility for a financial policy both vicious and wasteful, for a state of things so disastrous..."¹⁵

¹⁴ Speech of Mr. François Langelier in DALQ, 1880, p. 524.

¹⁵ Financial Statement of the Honourable H.R. Harcourt, Treasurer of the Province in the Legislative Assembly of Ontario, March 6th, 1894, pp. 42-43.

One question which emerges from the fiscal comparisons between the two main provinces is whether Quebec's performance was generally inadequate or if Ontario's results were exceptional. Such conclusions are largely a function of both the basis of the comparison which one chooses to employ and the chronological context within which it is made. When looking, for example, at the question of debt accumulation in North America during the late nineteenth century, clearly Ontario proved to be an exception to virtually all provincial and state governments. While comparisons are not precise between Canadian and American jurisdictions, the state administrations south of the border had almost all amassed debts at that time.¹⁶ The combined debt of all of the American states was estimated at \$3.37 per capita by the year 1890 and remained virtually unchanged during the final decade of the century. While this per capita debt was considerably less than that of Quebec over the same period, it nonetheless lends credibility to the view that Ontario's absence of debt was uncommon.

Despite the problems associated with comparisons of the financial positions of Quebec and Ontario and the often eloquent defense by Quebec treasurers of their province's particular situation, there was still a certain grudging admiration for Ontario's fiscal accomplishment. Even the

¹⁶ Studenski and Kroos, "Financial History of the United States..." op. cit., pp. 193-194.

press which supported the Quebec Conservative administration recognized the strength of the Ontario financial record. In the mid-1890's, the Montreal Star noted that the people of Ontario were comforted by the recurrent announcements of surpluses of assets over liabilities by their treasurers. The Montreal Star labelled irrelevant the charges of the Ontario political opposition that the government's surpluses were strictly obtained by the depletion of natural resources. The newspaper concluded that:

...the fact remains that Mowat's finance minister can announce a surplus while the rest of us are compelled to be content with putting the brakes on our debts. There thus grows a tendency to judge Mowat by our sins rather than his virtues that cannot but be a great boon to him.¹⁷

The degree and pattern of economic development, the growth of population and the prevailing business cycle all had a vital impact on the degree and style of government intervention. These factors, however, were not the sole criteria in distinguishing the financial advantage of one province over another. Economic fluctuations were heavily influenced by certain qualitative considerations in the decision making process of political leaders. The logic of investment decisions is frequently difficult to measure as are the relative degrees of pressure exerted by interest groups (e.g. the business class and the clergy) and the extent of political

¹⁷ Montreal Star, March 10, 1894, p. 4.

patronage. The level of concern annual deficits and overall debt will depend on a number of factors primarily related to perceptions of short and long term economic needs.

An interesting case of short term and long term financial decision making is to be found in a study of railway investment conducted in the early twentieth century. An authority in the field concluded that: "Railway financial men should...exercise all the influence they possess in the direction of a broad, sound policy, in harmony with the swing of the economic pendulum".¹⁸ Experts have contended that economic laws are as inexorable as fate and any attempt to create a condition antagonistic to them was likely to result in failure. There was no perfect formula for managing railway finances as each case was frequently influenced by existing circumstances. When monetary conditions were stringent, it became necessary not to unduly extend temporary arrangements. There was occasionally a disposition to extend temporary accommodation beyond the limits of prudence owing to the difficulty of discharging obligations under unfavourable conditions.

The line of demarcation between temporary and permanent financial arrangements is one of the most important questions

¹⁸ Frank Scott, "Some Features of Railway Finance", op. cit., p. 24.

connected with the financial administration of a railway. The features of permanent financial arrangements differ markedly from those of a temporary character. The latter are of necessity constantly under surveillance and dependant upon the experience and judgement of the administrators. When the securities of a company cannot be marketed at what by previous experience was shown to be a relatively fair price, unless there was a pressing reason, the suggested course was generally the curtailment of expenditure. It was considered, therefore, essential at all times to prepare for eventualities by keeping an ample margin of safety.¹⁹ Clearly, the strategy pursued by Quebec in the late nineteenth century with respect to railway finance did not conform to the rules set out by observers of the period.

We have observed that in Quebec's case, the investment in the Quebec, Montreal, Ottawa and Occidental Railway in with limited means resulted in severe fiscal problems. On the other hand, in the early twentieth century, the Temiscamingue and Northern Ontario Railway initiated by the Ontario government during a period of economic advancement and penetrating a resource rich area, produced far greater advantage for the province.

What steps might Quebec have taken to avert the annual

¹⁹ Ibid, p. 22.

deficits and constantly increasing debt during the latter part of the nineteenth century? Most would likely argue that it should have avoided its large expenditure on railways. In their recent exhaustive study entitled A History of Taxation and Expenditure in the Western World, Carolyn Webber and Aaron Wildavsky argue that "...the number of ways in which governments can manage spending in relation to their managements of resources is quite limited".²⁰ They identify the following "all-or-nothing" fiscal options:

1. Governments can manage neither their expenditure nor their revenues.
2. Governments can manage their expenditure but not their revenues.
3. Governments can manage their revenues but not their expenditures.
4. Governments can manage both their expenditures and their revenues.²¹

Webber and Wildavsky point out that governments may have two options with respect to financial management depending on the scope they have to control their resources. If governments were simultaneously able to mix increases or decreases in revenues and expenditures, they could conceivably vary the size of the balance or imbalance in their financial position. From 1867 to 1896, the second of the above cited options that is the control over expenditures rather than revenues best

²⁰ Carolyn Webber and Aaron Wildavsky, A History of Taxation and Expenditure in the Western World, New York: Simon and Schuster, 1986, p. 595.

²¹ Ibid.

described the fiscal condition of Quebec and Ontario.

With the exception of the Dominion subsidy, each of the province's major sources of revenue was limited by certain conditions often outside the government's control. For example, in the case of revenue from Crown lands, the annual amount which was obtained was affected by the economic cycle and the state of the lumber trade. The perceived lack of flexibility with regard to the sources of provincial income in the first three decades of Confederation constituted a source of conflict between the provincial and federal authorities.

In 1930, A.W. Boos remarked that the Confederation financial arrangements were thought to be final and complete. He concluded that: "...they were consummated in an environment of concession and compromise, in a spirit of fairness, and with a sense of equity".²² Clearly, not everyone agreed with this assessment. In the latter decades of the nineteenth century, the vision of the Fathers of Confederation and that of the provincial political leadership diverged rather sharply with respect to the nature of the agreement arrived at in 1867. There is little doubt that the evolving financial position of the two largest provinces had an impact on the eventual interpretation given by the provincial Premiers to the existing arrangements. Noting that between 1867 and 1896 the

²² Boos, op. cit., p. 14.

fight for provincial autonomy was led by Ontario, Paul-André Linteau concludes that "...unlike Ontario, Quebec was in a precarious financial situation and as a result was more dependent on Ottawa and less sensitive to the question of provincial rights than Ontario was".²³

Linteau correctly notes that the meaning of autonomy was dissimilar in the two provinces. While Ontario pursued provincial autonomy with a view towards limiting the extraction of fiscal and other resources by federal authorities, for Quebec, an important, if not the main component of provincial autonomy, was the need to be liberated from its financial plight by the federal government. Somewhat paradoxically, in this way, Quebec believed it would be less dependent on federal authorities. When in opposition during the early 1880's, a Quebec Liberal observed that:

Qu'on ne se fasse pas d'illusion, plus nos embarras financiers se multiplieront, plus nos finances seront obérées, plus nous courrons les risques de voir s'opérer ce qui nous inspire le plus de crainte pour notre province, l'union législative.²⁴

The federal government recognized that the financial weakness of the Quebec government forced it to rely on the central authorities. At the same time, however, Quebec's unresolved debt was a constant threat to the financial predominance of Ottawa as the provincial administration would eventually be

²³ Linteau et al., op. cit., p. 260.

²⁴ DALQ, 1882, p. 1389.

obliged to provide for concessions that would offer a permanent remedy to the situation. By the 1890's, the Dominion subsidy was not greater than Quebec's annual interest payments. Provincial politicians began to wonder whether the Dominion might not allow Quebec's bonds or credit to fail simply because it paid the subsidy. The calls for substantial increases to provincial revenues multiplied in the province of Quebec.²⁵

As early as the mid-1870's, Quebec administrators complained over the inadequacy of the Federation financial arrangements with regard to revenue. In his 1874 budget speech, treasurer J.G. Robertson stated that:

Il n'était peut-être guère possible de prévoir en 1867 quels seraient les revenus respectifs des provinces, les charges sur ce revenu; il ne faut donc pas s'étonner si l'expérience que nous a donné depuis quelques années à la mise en vigueur de l'acte de confédération a démontré qu'il fallait modifier les subventions accordées à ces provinces...²⁶

Such pleas culminated in the co-operation by the provinces in an effort to extract greater income from the federal authorities. Despite its support for provincial autonomy, at first Ontario was a somewhat reluctant partner in the common front. As the disentanglement from Quebec's financial

²⁵ Budget Speech of the Honourable John S. Hall, Treasurer of the Province, delivered in the Legislative Assembly of Quebec, May 20th, 1892, p. 39.

²⁶ Discours budgétaire de l'Honorable J.G. Robertson, 13 janvier, 1874, in DALQ, session de 1873-1874, p. 119.

problems was one of the conditions which contributed to the acceptance of the Federation arrangements by Ontario, the latter began to worry that history was repeating itself when Quebec's financial situation deteriorated. By the early 1880's, the Ontario treasurer warned that massive transfers of funds from the federal government to the provinces in the case, for example, of railway assistance to Quebec would be "...one of the most dangerous things which have happened since the year 1867".

The federal government did not advance its own cause by participating in challenges to the existing and potential revenues of the provinces. Perhaps the central authorities were, along with the business community, concerned that the increases to license revenues and the introduction of direct taxes were a threat to federal predominance over the economy. But the consequent jurisdictional conflict which erupted at a time when Quebec desperately required funds merely served to heighten the resolve of the province. Moreover, the Privy Council in London, which had the last word on constitutional matters supported the position of the provinces in the decisions on jurisdiction over liquor licenses and direct taxation. As Paul-André Linteau concludes: "In a series of decisions, notably between 1883 and 1896, the Privy Council interpreted the constitution in a way that was highly

favourable to advocates of provincial autonomy".²⁷ It is arguable that by leaving certain fiscal questions unresolved, the 1867 arrangements encouraged ongoing conflict between the federal and provincial levels of government.

The financial experience of Quebec and Ontario during the period 1867 to 1896 had serious ramifications for several of the important fiscal and political decisions which were made by provincial leadership in the early twentieth century. With the emergence of highly favourable economic conditions towards the late 1890's, characterized by a take-off in industrial growth, the two provinces found themselves with a dissimilar capacity to react. Clearly, the administration of the province of Ontario was in a much better position to stimulate economic and industrial growth through government intervention in the early twentieth century. Without debt burden, the financial markets were highly receptive to loan requests from the province of Ontario. Consequently, the early twentieth century provincial Conservative government under Premier James Whitney was much more disposed both to spend and borrow than previous Ontario administrations. It was during the Whitney government's rule that Ontario Hydro was created and major railway initiatives such as that in Temiscamingue and Northern Ontario were dramatically reinforced. In spite of all the province's borrowing, by 1914, debt service constituted only

²⁷ Linteau et al. op. cit., p. 258.

3.5 percent of total provincial expenditure.²⁸

For its part, Quebec was confronted with a sizeable debt accounting for over one-third of its total ordinary spending when the economic upswing arrived in the mid-1890's. Towards the close of the nineteenth century, in their final years in power under L.O. Taillon, the provincial Conservatives argued that the debt could legitimately be transferred to subsequent generations who would benefit from the enterprises which had already been created.²⁹ This conclusion was arrived at following important efforts at debt reduction by the Conservatives. But the more favourable economic circumstances afforded the Quebec government the opportunity to significantly reduce the province's debt. With the election of the provincial Liberals in 1897 under Félix Gabriel Marchand and later Premier Lomer Gouin, the administration spent more cautiously and put a halt to nearly all borrowing for about fifteen years. While the Quebec government was not alone in practising restraint toward the close of the nineteenth century, unlike other provincial administrations, it continued this practice over the first three decades of the 20th century. (Thus the government did not take advantage of the positive economic cycle to invest in important

²⁸ Drummond, op. cit., p. 343.

²⁹ Budget Speech of the Honourable L.O. Taillon, Premier and Treasurer of the Province, delivered in the Legislative Assembly of Quebec, 26th November, 1895, p. 29.

developmental ventures). By 1930, Quebec had managed to reverse its situation whereby relative to other Canadian provinces, its debt was insignificant.³⁰

In the case of Quebec and Ontario, the approach to public finance adopted by political leadership in light of the changed economic circumstances of the early twentieth century does not appear to be surprising given the previous fiscal experience of the provinces and their actual standing in the final years of the nineteenth century. From Confederation to the end of the nineteenth century, the province of Ontario sustained its sound financial position while Quebec continually drifted further into debt. While Quebec looked towards the twentieth century as an opportunity to settle past fiscal problems, Ontario was prepared to seize new opportunities. To the extent that Canadian Prime Minister Wilfrid Laurier's prediction "the twentieth century belonged to Canada" was true, clearly from an economic and financial standpoint Ontario had a much greater degree of ownership over the future.

³⁰ Bates, "Financial History...", op. cit., p. 149.

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